From:	Will Yarborough
To:	_Regulatory Comments
Subject:	Comments on Proposed Rule: Prompt Corrective Action – Risk-Based Capital
Date:	Wednesday, May 28, 2014 9:18:51 AM

May 28, 2014

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Via e-mail: regcomments@ncua.gov

RE: Comments on Proposed Rule: Prompt Corrective Action – Risk-Based Capital

Dear Mr. Poliquin:

U. S. Postal Service FCU is a $200 million credit union serving a nationwide membership with members in all 50 states and several territories. I am writing to comment on NCUA's proposed rule Prompt Corrective Action – Risk-Based Capital (RBC).

Overall USPS FCU believes capitalization or net worth is critical to any business or household being able to survive and supports higher capital levels and access to secondary capital for credit unions. In credit union land we have experienced and expensed first-hand the costs of taking on risk and not having adequate capital to cover that risk (Capital Corporate FCU, WesCorp FCU and US Central FCU). Capital allows credit unions to absorb losses and continue serving their members. Capital is also a source of free earnings as one does not pay dividends on undivided earnings.

We believe the proposed Risk-Based Capital rule represents a well-intentioned and sincere start but is flawed as currently written and should not be implemented as written.

Proposed risk-weights
Credit unions are in general small relative to for-profit providers of similar products and services and our small size means economies of scale are more difficult to achieve. This has led many credit unions, like USPS FCU to invest in credit union service organizations. This has enabled us to offer products, like mortgages, that alone we would have struggled to develop the expertise and it is doubtful we would have had volume to offset the costs so we may not have then, without the pooling of resources the CUSO enabled, been able to offer mortgages to our members. The risk-weight for CUSO's discourages investing in CUSO's and this could make credit unions less relevant to our members and reduce competition meaning consumers in general could pay more as a result.

Treasury bonds have a zero risk-weighting and this is appropriate if only credit and liquidity risk is being considered but these bonds certainly do carry interest rate risk. It is not clear why a Treasury would have a zero risk-weighting whereas other investments such as mortgage-backed securities have much higher risk weightings. Longer-term Treasury securities have high value declines when rates rise yet the zero risk-weighting could then encourage credit unions to seek them over an investment with less price volatility primarily because of the more favorable risk-weighting. Such is an example of unintended consequences.

There is confusion as to whether a credit union would have to hold more than 100% of an investment's value to be considered "well capitalized". Confusion in a rule is not good.

Examiner discretion to change risk ratings
The rule as now written allows the risk-weightings to be changed for individual credit unions. Examiners mean well but to provide this type of discretion I believe could lead to inconsistent weightings. My preference is to remove section 702.105(c) from the proposed rule entirely.

Conclusion
The rule is long and given the many comments reflected in the trade press that go well beyond issues raised here tell me it will be better to reflect on those many comments and not react defensively. We're all in this to make credit unions better and we all can or should all appreciate the need for a strong capital foundation. We have seen instances that demonstrate credit unions are not perfect and seen instances that demonstrate our regulator also is not perfect. This proposed rule can be made better with careful and honest reflection and I hope you will take the comments, consider all the observations and implications and start from scratch toward developing a better capital rule that is less arbitrary and that betters captures risk so credit unions can continue helping people become better and more better off than they would be were there no credit unions.

Sincerely,

William H. Yarborough, CEO
U. S. Postal Service Federal Credit Union

Cc: Sen. Barbara Mikulski
Sen. Benjamin Cardin
Rep. Steny Hoyer

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