From: Phil Weber
To: _Regulatory Comments
Cc: Philip Weber - CENTRAL COMMUNICATIONS
Subject: Comments on the Proposed Interest Rate Risk Rule
Date: Wednesday, May 28, 2014 4:53:39 PM

Central Communications Credit Union (CCCU) with over 80 years of history is very concerned about NCUA's proposed Risk Based Capital Rule. We have been studying it very closely and as the Credit Union's President I believe if implemented without significant changes to the requirements it will damage and possibly end the credit union movement as we know it today. Below I have outlined many of our concerns with this proposed rule.

Risk ratings:

1. The proposed rule is not consistent. The risk ratings being assigned to credit unions is different from those assigned to banks. In every category except consumer loans, credit unions are assigned a higher risk than that of a bank.. This makes no sense – how is a government backed mortgage back security more risky on a credit union's balance sheet that the identical bond on a banks? We talk all the time about having a level playing field with the banks and yet NCUA is proposing just the opposite in this rule.
2. The rule assigns higher risk rating to a Federally Insured Bank CD with a maturity of 4 years than a 30 year fixed rate mortgage loan underwritten by the credit union. The CD has significantly less interest rate risk and zero credit risk while the mortgage loan has both more interest rate risk and credit risk. The proposed rule is not logical – to further demonstrate this, a credit union could originate a pool of mortgage loans and then package and sell them to FNMA. Once securitized by FNMA and then repurchase the pool as an investment and now the risk rating is HIGHER? They are the same loans but FNMA has assumed the credit risk!
3. One year ARM's are treated at the same risk as a 30 year fixed rate mortgage loan is just another example of not considering duration in the proposal.
4. Having investment is CUSOs are at 250% risk rating is like telling credit unions - you should go outside the credit union movement for services a CUSO can offer rather than doing them on your own or pooling the resources of several credit unions to meet the needs of our members.
5. All Treasury Securities and those guaranteed by NCUA carry a 0% risk rating regardless of maturity. It is illogical that they have no interest rate risk. The risk weights for investments are both punitive and inconsistent.
6. Under the proposed rules, if interest rates don't rise soon (they dropped further today) the credit union industry's investment portfolios will likely earn far less than the banking industry.

General comments:

1. Compared to banks, the proposed rule requires more capital for credit unions holding the same assets. This places credit unions at a competitive disadvantage in pricing. This translates to higher loan rates and lower dividends to our members and likely both.
2. The credit union performance during the past 6 years demonstrates that the

current capital model is effective and keeps it simple. The proposed regulation requires numerous calculations using balances that often change daily and the application methods are subject to interpretation by examiners.

3. The risk-weightings proposed do not match the "real" risk in the system. They are inconsistent with Basel III and prior Interest Rate Risk Regulation. Further, the banks are being given a more reasonable time frame to adjust to the new requirements.
4. The proposal contradicts NCUA Regulations requiring sound interest rate risk management and liquidity risk management. It ignores interest rate risk of the loan portfolio as well as the liability side of the balance sheet. Longer term deposits like 5 year and greater CDs and longer term borrowings will offset interest rate risk but the proposal completely ignores this fact.

In closing, this proposal contradicts the Federal Credit Union Act (FCUA) as not all material risks are being addressed like market risk. It encourages taking on higher levels of credit risk at the expense of less risky assets and will be a direct drain on capital if unanticipated losses occur. Our experience at CCCU clearly shows that our losses over the past 10 years have all been due to credit risk and we have zero losses due to interest rate risk. The FCUA has a requirement of being comparable to the banking rules which require greater capital for higher credit risk. I believe if this proposal is not extensively changed it will ultimately reduce member services and affordable loans to our members. It may even result in the demise of many credit unions who like CCCU have been providing financial services to our members for over 80 years!

I appreciate the opportunity to comment on this proposal and ask that you give serious consideration to our comments and concerns regarding the Risk Based Capital Rules you have proposed.

Sincerely,

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