Workers' Credit Union
Doing what's right for you.
815 Main Street • Fitchburg, MA 01420

April 15, 2014

To: regcomments@ncua.gov

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

RE: Comments on Proposed Rule: PCA - Risk-Based Capital

Dear Mr. Poliquin:

Workers Credit Union appreciates the changes the National Credit Union Administration (NCUA) Board has made to the original proposal to revise Prompt Corrective Action related to Risk-Based Capital. Our credit union serves the State of Massachusetts with over 80,000 members and nearly $1.2 billion in assets. We agree there is a need to modernize capital standards to identify excessive risk in credit union balance sheets. However, management still believes there are a few changes required to prevent negative effects on our members and not discourage investments in long term strategies essential to our success. We are asking the NCUA to consider revising several more risk weightings, consider eliminating the deduction of the NCUSIF deposit from the risk based capital numerator, consider including the authorization of supplemental capital for all institutions as part of this proposal and consider removing the requirement for a capital adequacy plan for well capitalized institutions.

Below are the detailed comments that Workers' is asking the NCUA to consider in developing the final version of the Risk-Based Capital Rule.

1. **Several of the risk weightings under the Revised Proposal are still higher than our bank competitors requiring credit unions to hold more capital than banks for the same assets. This is a major concern as it would place our credit union at a competitive pricing disadvantage in an already highly competitive marketplace.**

<u>Real Estate Loans</u>
Under the Revised Proposal for current first lien real estate loans and junior real estate loans there are two risk weights for each category. The higher rate for both categories exceeds the risk rate for banks. I see no rationale for credit unions to carry more capital for a first lien real estate loan or a junior real estate. I understand the proposal is addressing a potential concentration issue but the other regulatory agencies did not see the need for any additional capital around concentration risk for any asset category. The preferred tool for managing concentration risk

even for the NCUA in the past has been through recommendations around credit union policies and the examination process. Our institution, and many others, implemented a concentration risk policy several years ago and it seems to be a much better tool for managing this risk. Therefore, we are asking that the risk weightings for first lien real estate loans greater than 35% and junior lien real estate loans greater than 20% be eliminated leaving a single rate of 50% for all first lien real estate loans and 100% for all junior lien real estate loans.

Investments in CUSO's

Under the Revised Proposal Investments in CUSO's will carry a higher risk weight than any other asset on our balance sheet even though this investment represents less than ten basis points of our total balance sheet. The risk weight under this proposal is 50% higher than it is for banks. The FDIC says non-significant investment exposures in unconsolidated equity of a privately held company should be risk weighted at 100% and defines non-significant as equity exposures in the aggregate of 10% or less than banks capital. According to the December 2014 Call Report data, the credit union industry's investment in CUSO's represents less than 2% of capital and in only the rarest of situations would a credit unions investment be considered significant by the FDIC rule. In addition, most credit unions are limited by statute or regulation to a maximum aggregate investment in CUSO's. Though small, these investments represent some of the most important innovations and collaborations and truly exemplify the very spirit of what makes credit unions different/better than our competitors and more valuable to our members. To penalize the clearly immaterial investments in CUSO's runs counter to the principles of our cooperative industry structure especially since these investments will never have any significant impact on the NCUSIF. Therefore, Workers' is asking for a reduction in the risk weight for Investments in CUSO's to 100%.

2. The NCUSIF deposit should not be deducted from the risk-based capital numerator.

The National Credit Union Share Insurance Fund 1% deposit is being deducted from the numerator in the risk-based capital calculation. The proposed rule for this deposit is the same treatment that is given to intangible assets like goodwill, but this is a tangible cash deposit that is made with the NCUA. The NCUSIF deposit is a required asset that can be refunded for various reasons including conversion to a bank or savings institution charter, a credit union electing private insurance instead of NCUA or voluntary liquidation. In addition, the deposit can specifically be attributable to a failed credit union providing an additional buffer against NCUSIF losses in addition to the failed credit union's capital. I could actually argue that this self-insurance deposit should be added to capital rather than being deducted. There is no justification for reducing capital by the amount of this required cash deposit which only serves to reduce the final risk based capital percentage. Workers' is asking for the deduction of the NCUSIF deposit from the risk-based capital numerator to be eliminated from the calculation entirely.

3. Supplemental Capital for low income designated credit unions is included in the numerator of the risk based capital calculation as proposed. Workers' believe this effort to ensure the adequacy of capital should include granting authority to all credit unions to expand their capital by offering Supplemental Capital.

The Revised Proposal limits the use of Supplemental Capital to a very limited number of credit unions. Given the NCUA's desire to protect the NCUSIF by modernizing the capital standards, it seems logical that providing all credit unions another source of capital would fit perfectly as part of new standards. The first step to expanding this capital source for the industry is to include a Supplemental Capital expansion provision in this revision to the Prompt Corrective Action regulations from 2000. Therefore, Workers' is asking for new language allowing all credit unions to included Supplemental Capital in the risk based capital numerator.

4. A Capital Adequacy Plan should not be a requirement for a credit union that is well capitalized under this Revised Proposal

The Revised Proposal would add a requirement that covered credit unions must have a process to determine its capital adequacy in light of its risks and a comprehensive written strategy to maintain "an appropriate level of capital". It seems that the process to determine a credit union's capital adequacy in light of its risks is simply to perform the risk based capital calculation. If the result is greater than 10% the credit union is well capitalized. It also seems to be redundant and unnecessary to prepare a comprehensive written strategy if, based on the calculation under this proposal, the credit union already exceeds the requirement and is considered "well capitalized". I would support this requirement only for a credit union that was not "well capitalized" under the new rule.

In summary, we feel that although much progress has been made from the original proposal, the Revised Proposal continues to penalize credit union members and damage the competitive position of the credit union industry. Capital is the life blood of financial institutions and our industry already carries higher levels of capital than all of our competitors. It is critical that this Revised Proposal does not limit the growth of our segment of the industry or the value we bring to our members by placing undue capital requirements, especially when considering a credit union's inability to raise supplemental capital. We feel that with some relatively minor modifications to the Revised Proposal, the final version of the Risk-Based Capital Rule could in fact be a significant improvement over current Risk Based Net Worth.

Thank you for the opportunity to comment on the Revised Proposal and for listening to our concerns. Please feel free to contact me with any questions or comments regarding our comments on the Revised Proposal.

Sincerely,

J Timothy Smith

SVP – CFO and Treasurer
Ph: 978-353-7020 • tsmith@wcu.com