April 20, 2015

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

Re: Comments on Proposed Rule: Risk Based Capital, 12 CFR Parts 701, 702, 703, 713, 723 and 747

Dear Mr. Poliquin:

Thank for your consideration of our comments the National Credit Union Administration's ("NCUA") recent proposed rule, Risk-Based Capital ("Proposed Rule") issued on January 15, 2015.

Police Federal Credit Union provides financial services to over 11,000 law enforcement officers and their families. On behalf of our members I submitted comments on NCUA's initial proposal to modify risked-based capital for all credit unions; I commend you for substantially improving the proposed rule. However, I still believe the Proposed Rule in its current form is unnecessary given the regulatory rules now in place that safeguards both our members and the credit union industry. Notwithstanding our supposition, I will hereby reiterate major areas of concern in the Proposed Rule and provide recommendations for further improvement.

1. Substantive Improvements from 2014 Proposed Rule

In our view the following changes, although significantly improve upon the Proposed Rule of 2014, is just a beginning of the changes needed to ensure both the legality of the Proposed Rule on RBC and any material effect on the NCUSIF:

a. Removing interest rate risk from the proposal;
b. Extended implementation period; and
c. Lowers well-capitalized threshold from 10.5% to 10% (although it is still too high and will likely adversely affect industry growth in the long-term).

2. Improvement of the 2015 Proposed Rule

The following areas remain issues of import and in our review need to be removed entirely or modified substantially:

a. The NCUSIF deposit should not be a deduction from the risk-based capital numerator.
b. The concentration risk penalty for first mortgage loans and junior liens should be eliminated.
c. Investments in Credit Union Service Organizations ("CUSOs") should have similar risk weights as Loans to CUSOs.
d. The Proposed Rule is a complete overhaul of current credit union capital standards and inconsistent with congressional language and intent on RBC;

therefore, it would be appropriate to seek legislative authority and thereby congressional approval and thereafter reissue the Proposed Rule for public comment.

e. The over-all long-term costs associated with implementation of the Proposed Rule in its current form will significantly out-weigh any material benefits to the NCUSIF.

Hereinbelow, in order by section number, I have highlighted in more detail the problematic aspects of the Proposed Rule.

<u>Section 702.104(b)(2) Risk-Based Capital Numerator Deductions:</u>

The Proposed Rule deducts the NCUSIF deposit from the risk-based capital numerator.

<u>Recommendation</u>

The NCUSIF deposit should not be deducted from the risk-based capital numerator or the risk-based asset denominator. The deposit is under the NCUA's complete control and it is supplementary to the capital available on a credit union's books in case of failure. Therefore, it should <u>remain part of the risk-based capital numerator</u>.

<u>Section 702.104(c)(2) Risk-Weights for On-Balance Sheet Assets:</u>

First Mortgage Real-Estate Loans (Excluding Commercial Real Estate):

The Proposed Rule would exacerbate the burden and costs by requiring higher levels of capital for those credit unions that hold first mortgage assets in excess of 35% of total assets.

<u>Recommendation</u>

Eliminate the higher risk-weights for concentrations of residential first mortgage loans. Credit unions and their members will both benefit by not increasing their costs to fund these loans and credit unions will not be at a competitive disadvantage to other financial institutions. Moreover, the NCUA examiners have sufficient supervisory tools available to effectively manage concentration risks at a credit union without imposing a "one-size-fits-all" solution.

Junior Liens:

As the housing market continues to recover, junior liens are becoming an important financial tool for homeowners to use.

<u>Recommendation</u>

Eliminate the higher risk-weights for concentrations of junior liens. This will ensure that credit unions will not be at a competitive disadvantage to other financial institutions. Once again, the NCUA examiners have sufficient supervisory tools available to effectively manage concentration risks at a credit union without imposing a "one-size-fits-all" solution.

<u>Other Areas of Concern</u>

***Supplemental Capital*:**

A credit union's net worth ratio is currently determined solely on the basis of retained earnings as a percentage of total assets. The increased capital burden under this proposal heightens the need for supplementary capital.

<u>Recommendation</u>

It would be prudent for NCUA to aggressively support legislation to allow federal credit unions to receive payments on uninsured, non-share capital accounts provided the accounts:

- Do not alter the cooperative nature of the credit union;

- Are uninsured;
- Are subordinate to all other claims against the credit union;
- Are available to be applied to cover operating losses of the credit union in excess of its retained earnings and, to the extent supplied, will not be replenished;
- Are subject to maturity limits as determined by the NCUA; and
- Are offered by a credit union that has been determined sufficiently well capitalized by the NCUA.

High Cost of Proposal

If finalized, the Proposed Rule will impose very high costs on the credit union industry even those who under current standards impose no consequential threat to the NCUSIF.. NCUA estimates that this proposal will cost credit unions roughly $5.1 million to review the rulemaking
and make necessary changes to current policies.

Recommendation
The Proposed Rule must be revamped to reduce the initial and ongoing costs or completely eliminated. Current standards are sufficient to regulate a credit union's capital adequacy to safeguard the NCUSIF. Credit unions that impose a threat to the NCUSIF should and would be subject to more frequent examinations by experienced auditors.

In closing, while NCUA's revised Proposed Rule to create a new risk-based capital standard is an improvement over the 2014 version, it will still create significant negative operational consequences for credit unions and will place them at a competitive disadvantage relative to banks. If the intent of NCUA is to align regulatory authority of credit unions with that of banks and other financial institutions without regard to the significantly dissimilar business models, then the issue of redundancy in regulatory authority and the exorbitant costs to American consumers/taxpayers could someday be the subject of review by legislators who demand greater fiscal accountability by eliminating duplicative oversight. Once again, I respectfully recommend that NCUA withdraw this proposal to avoid the long-term negative consequences to credit unions and to those consumers who seek out credit unions as their alternative to traditional banks. Nevertheless, if NCUA decides to move ahead with this Proposed Rule, I believe the recommendations enumerated hereinabove will garner more support from affected parties and to some degree further reduce the inherent negative consequences.

Sincerely,

Danny C. Gregg
President