April 22, 2015

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

RE: Risk Based Capital 2 Proposal

Dear Mr. Poliquin:

As the President and CEO of People's Trust Federal Credit Union I appreciate the opportunity to submit comments on the National Credit Union Administration's notice of proposed rulemaking for NCUA's Second Risk Based Capital Regulation.

While this second proposal contains substantial improvements over the original Risk Based Capital proposal, there are several areas that remain disconcerting. Setting aside the argument that NCUA possess the legal authority to establish a risked based capital standard, it still remains questionable that there is even a need for such a regulation. Congress enacted HR 1151 to establish standards for a well-capitalized credit union and Congress should be the only body authorized to enact additional requirements.

First, it appears that the actions taken by NCUA to enact comparable regulations to those of banks, ignores the cooperative nature of credit unions and impacts our ability to provide products and services by virtue of requiring more capital than required by current regulation.

Second, there is considerable concern regarding the need for a Capital Adequacy Plan that imposes stress testing requirements and grants field and supervisory examiners with a tool to allow them to imposed subjective standards on individual credit unions. During the financial crises, examiners took a considerable about of subjective actions and, until recently, cited "best practices and business reasons", in exam reports, usually unable to cite specific regulation. Without clear guidelines, individual credit union may be subjected to undue criticism and action that could impede their ability to serve their members.

Third, there are many large credit unions that do not engage in risky activities and the definition of complex, should not be based on asset size alone. As an example, my credit union does not engage in excessively risky activities such as member business loans, hedging, complex investments or overly large mortgage lending operations. The composition of the asset portfolios and liabilities of the credit union should have more weight than size alone.. Two-thirds of all federally insured credit unions are in credit unions less than $500 million in assets. One size should not fit all.

Fourth, while I acknowledge there are significant improvements in regards to the risk weightings, these weighting should not be more stringent that those imposed on other financial institutions. As an example, RBC2 would require a 75% risk weight for all first lien mortgage loans that are greater 35%of assets as opposed to a 50% risk weight for banks. The risk weighting for unconsolidated CUSO loans and mortgage servicing are still too high and should be adjusted downward. By placing a standard risk weight on all CUSOs, NCUA has failed to acknowledge that all CUSOs are not alike and do not imposed the same level of risk. By imposing a high risk weight on mortgage servicing portfolios, NCUA in essence, is telling credit unions to find a third party to service their loans and give the member's information to a company that could potentially "steal" the member's business from the credit union. Members come to their credit union for service and do not like making the home payment to an uninterested third party. Additionally, if we are forced to sell or contract a third party we are giving up our control over the collection of payments and potentially subjecting our members to less than acceptable service.

Fifth, NCUA should consider the use of Supplemental Capital and strongly advocate for statutory capital reform. There is nothing in the FCU Act that would prevent NCUA of including Supplemental Capital in the numerator of the risk-based capital ratio. Finally, NCUA should continue to proactively advocate for changes in federal law that would allow credit unions to use supplement capital for purposes of prompt corrective action. As well, the provision for loan losses is a significant number on our balance sheet and should be used in the risk based capital calculation. After all, it is monies that have been set aside to offset loan losses, which do posse a risk to a credit union's net worth ratio.

Sixth, there is absolutely no reason for a separate Interest Rate Risk Rule. We currently have policies, procedures and tools in place to assess our interest rate risk, which is evaluated during our annual exam process. NCUA has specialist who routinely evaluate the effectiveness of our program and have not found any flaws. Again, an additional "one size fits all" rule is unnecessary and duplicative.

Lastly and most importantly, People's Trust is a financial supporter and contributor the National Credit Union Foundation. I believe it is important that credit unions have the ability to fully utilize Charitable Donation Accounts as approved by NCUA in December 2013. That regulation was meant "to clarify that federal credit unions are authorized to create and fund a charitable donation account, a hybrid charitable and investment vehicle, as an activity incidental to the business for which the credit union is chartered, provided the account is primarily charitable in nature and meets other regulatory conditions to ensure safety and soundness." (Federal Register, Vol. 78, No. 244, Thursday, December 19, 2013, page 76728). The parameters placed on CDAs effectively balance safety and soundness considerations with credit unions' charitable intent. Imposing risk-based capital limitations on such investments contravenes the appeal for credit unions to put money into these investments to fund charitable activities.

To that end, I would ask the NCUA Board to consider three alternative approaches to the treatment of CDAs under the risk-based capital proposal.

Preferred treatment: Exemption for CDAs from the risk-based capital proposal

As noted above, NCUA effectively balanced safety and soundness with effectuating credit unions' charitable intent when it passed the CDA regulations. I respectfully urge the NCUA Board provide an exemption for CDA from the risk-based capital rule.

Alternative treatment 1: Community Development Investments – 100% risk weight

The OCC Risk-Based Capital regulation recognizes the importance of Community Development Investments and assign a risk weight of 100% rather than a 300% weight. The public policy embraced by the OCC is to encourage these investments to support charitable goals and purposes. I respectfully ask the NCUA Board to embrace a similar policy whereby a risk weight of 100% would be assigned for any equity or corporate bond exposure in a CDA investment. This treatment for CDAs will support broader participation by credit unions with CDAs and enhance the goodwill and reputation of the credit union industry as it builds an investment resource to support charitable contributions.

Alternative treatment 2: Non-Significant Equity Exposure

Banks are permitted to apply a 100% percent risk weight to certain equity exposures deemed non-significant. Non-significant exposures means an equity exposure that does not exceed 10% of the bank's total capital. I respectfully ask the NCUA Board to adopt a similar treatment for credit unions. Thus, if the publicly traded equities and equity allocation within an investment fund (e.g., a CDA) are less than 10 % of a credit union's total capital, a risk weight of 100% shall be applied to this equity exposure. This would reduce the complexity of the look through approach and simplify the overall risk weight process for non-significant equity exposure.

Thank you for the opportunity to comment on the proposal.

Sincerely,

Angela S. McCathran, MBA, CUDE
President/CEO
People's Trust, a Financial Cooperative

cc: The Honorable Debbie Matz, Chairman, NCUA
The Honorable Rick Metsger, Board Member, NCUA
The Honorable J. Mark McWatters, Board Member, NCUA