Bellwether
COMMUNITY CREDIT UNION

April 23, 2015

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

Subject: Comments on Proposed Rule: PCA – Risk-based Capital Revised Proposal

BY E-MAIL ONLY

Dear Secretary Poliquin:

Bellwether Community Credit Union (BCCU) is appreciative of the opportunity to comment on the National Credit Union Administration's revised proposal to make changes to Prompt Corrective Action relative to Risk-Based Capital. BCCU is a state-chartered credit union serving the citizens of New Hampshire. As of March 31, 2015, BCCU had 28,771 members, $415 million in assets and a 10.99% capital ratio with a 6.75% risk-based requirement under Prompt Corrective Action (PCA).

BCCU appreciates the necessity of sufficient capital requirements needed to maintain a safe and sound credit union system. However, we believe the standards and requirements under the current PCA system coupled with effective regulatory oversight and a 12 month exam cycle at the individual credit union level to be appropriate given the credit union industry's performance during the Great Recession and during other economic downturns. As not-for-profit financial cooperatives, credit union boards and management have fewer financial incentives than for-profit financial institutions to pursue excessive risk. The structure and mission of credit unions versus those of for-profit financial institutions should be considered when designing risk-based capital structures mimicking those of other Banking Agencies regulating for-profit financial entities. Any additional restrictions on credit union members'

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capital—while in our view <u>not</u> needed—<u>should</u> be done in a method appropriate with both credit unions' history of managing through difficult times and should reflect credit unions' uniqueness as not-for-profit cooperatives.

<u>Interest rate risk (IRR) components not needed in the context of PCA</u>

There is no question that IRR is a serious concern in the credit union industry. IRR is a basic premise of the financial services industry and, as such, has received due attention from the NCUA. Controls have been put in place, utilized and sharpened to ensure that focus remains on IRR. Examinations drill down on IRR, portfolios are shocked under various worst case scenarios, Board-approved IRR Policies are mandated, and the NCUA has authority to issue supervisory action on any credit union that does not have an adequate or appropriate program. The NCUA has repeatedly stated that the vast majority of credit unions have a solid IRR program, so a rule should not be implemented for the few that do not. It should be left as a supervisory issue.

<u>Risk Weights need further revision</u>

The risk weights proposed would make us less competitive. Mortgages, for example, are a staple of our portfolio. The risk weights assigned do not take into account our underwriting guidelines, policies, and procedures; the use of adjustable rates versus fixed; or selling the loan to the secondary market. The concept that mortgages are all the same simply is not valid; the final rule needs to incorporate quality, guarantees, and other differentiating factors.

Mortgage Servicing Assets (MSA's) carry a 250% risk weight under the proposed rule; this is too high. The assets themselves are once again being inaccurately cast as equivalent when they represent different quality (such as with or without recourse). This risk weight could encourage the sale of servicing as well, a concept that most assuredly is not to the benefit of the borrower.

Participations also need to be addressed, as a 250% risk weight may discourage interest and involvement and a tool to manage our balance sheets may be diminished.

Raising the risk weight on secured consumer loans is unnecessary; by their very nature they are low risk.

Investments in and loans to CUSOs also needs to be further studied. CUSOs are not all alike, and should not be treated as such. A start-up CUSO carries inherently larger risk than one that has been in business for a number of years with a track record of success and solid management. Their business purpose carries different risks. Also, a loan and/or investment to a CUSO should be treated equally, whether it is reported on the financial statement separately or consolidated.

More time needed for implementation

Credit unions should be given adequate time to adjust their balance sheets with any move to a risk based capital system. We appreciate that the NCUA recognized this in the RBC2 proposal and extended the effective date until January 1, 2019. However, we strongly believe that credit unions should have a minimum of five years to comply with a move to risk-based net worth. As the NCUA is aware, credit unions are operating in a very challenging low interest rate environment and need an appropriate amount of time to transition the composition of their balance sheets while balancing the needs of members.

Supplemental capital should be included in the final rule

Finally, given the NCUA's intention to limit credit union capital utilization, we believe a plan to allow supplemental capital should be included in the final rule. Multiple forms of alternative capital may be considered but the primary option should be member paid-in-capital. These deposits would be uninsured, have no voting rights, staggered/extended maturities, be subordinated to all other debt/obligations and count as Tier 1 capital from a regulatory perspective. Other options could include non-member paid-in-capital and subordinated indentures as methods of attracting Tier 2 regulatory capital. Regardless of the final form, it is imperative that if the NCUA is going to encumber credit union capital as a primary form of regulatory risk management then the industry needs access to alternative capital sources beyond retained earnings.

Thank you for the opportunity to comment on the Proposal. Please feel free to contact us with any questions.

Very truly yours,

Michael L'Ecuyer
President/CEO