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April 20, 2015

Gerard Poliquin, Secretary of the Board Mail
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

I am writing on behalf of Belvoir Federal Credit Union, which serves the Military and Department of Defense as our field of membership. We have over 26,000 members and \$318 million in assets. Belvoir Federal Credit Union appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule regarding Risk-Based Capital.

Belvoir Federal Credit Union does appreciate that the NCUA did make significant changes from the first Risk-Based Capital proposal and, with those changes, has made the current proposal somewhat less onerous than the first Risk-Based Capital proposal.

The major question to the NCUA is, "What is the objective of the Risk-Based Capital proposal?" Is the purpose of the proposal to reduce risk to the Insurance Funds? Is the purpose of the proposal to provide guidance to the Credit Union as to what investments and loans they should make? Is the proposal to serve the credit unions' membership better? I would interject that none of these objectives is being accomplished by this proposal. Instead, the proposal puts an unnecessary additional capital burden on credit unions without providing an ability for the credit unions to increase their capital beyond having a positive ROA.

Is the objective of the Risk-Based Capital proposal to reduce risk to the Insurance Fund? This sounds great in theory, but it has been shown that it does not work in reality. All we have to do is look at the 2008 Financial Crisis where Banks and Corporate Credit Unions had Risk-Based Capital calculations that did nothing to warn of the coming crisis. Risk-Based Capital will not be able to warn that the economy is going south and the value of mortgages is going to drop by 50%. Risk-Based Capital is not going to warn when a Commercial project is going to suddenly no longer be viable. Risk-Based Capital is not going to warn when investments go down suddenly and lose a lot of their value. Risk-Based Capital is not a great warning tool for predicting risk to the Insurance Fund.

Is the objective of the Risk-Based Capital proposal to provide guidance to the credit unions as to what investments and loans that they should be making? Credit Unions already have very restrictive regulations regarding the type of investments that they can use. Credit Unions also have some fairly restrictive loan regulations. So, to add another layer of regulation on Investment and loans will not necessarily insure that the investments and loans will not become a problem. Again, Risk-Based Capital will not provide a warning for troubled investments or loans.

Is the objective of the Risk-Based Capital proposal to serve the credit unions' membership better? To serve the membership better is certainly not the objective of this proposal as it will encourage credit unions to take the lowest risk. The lowest risk is U.S. Treasury Securities, **not loans to members.**

So by putting this Risk-Based Capital proposal in place, what does the NCUA accomplish other than add another layer of capital into the Credit Union system? In fact, if a Credit Union increases its loan exposure and reduces its investments, then its Risk-Based Capital will decrease.

Belvoir Federal Credit Union's concern regarding this proposal is as a credit union invests more in loans and their Risk-Based Capital decreases, the question then becomes how is a Credit Union supposed to increase capital? For this very reason, Supplemental Capital should be a part of this proposal.

The type of Capital that is known for decreasing the exposure in adverse conditions is leverage capital. With the average credit union having leverage Capital above 10%, why does the NCUA need another layer of capital that will not provide any additional protection or warning to the NCUSIF?

In summary based on the above reasons stated, Belvoir Federal Credit Union is against the Risk-Based Capital proposal as it now stands.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael M. Ligon", with a long horizontal flourish extending to the right.

Michael M. Ligon, CFO

Belvoir Federal Credit Union