MCU
MUNICIPAL CREDIT UNION

April 23, 2015

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

Risk-Based Capital, 80 FR 4340-01

Dear Mr. Poliquin:

As a Financial Analyst for Municipal Credit Union located in the New York Metropolitan area, I am writing this letter to offer a unique perspective on NCUA's Risk Based Capital proposal. Municipal is the oldest and one of the largest credit unions in New York State. Over the years we have come to recognize that NCUA's existing PCA system penalizes well run, larger and more sophicated institutions. Consequently, we are in favor of risk-based capital reform. Unfortunately, NCUA's proposed amendments don't make the type of changes that would substantially help Municipal and similarly situated credit unions.

The problem with NCUA's existing PCA system is that it does not reflect the underlying quality of a credit union's assets and practices. For example, Municipal has a relatively conservative portfolio of investments and should be able to invest in a broader range of services and products based on its staff's expertise. However the existing system does not allow for such distinctions. Consequently, in commenting on NCUA's first proposal, Municipal advocated for a graduated system of capital flexibility under which credit unions of increasing size and complexity would have greater investment flexibility. Simply put, comparing a $100 million credit union to a $2 billion credit union is the regulatory equivalent of comparing apples and oranges. The best way to address this incongruity is to establish a multi-tiered system, much more developed than simply imposing RBC on institutions with at least $100 million in assets.

In re-issuing this proposal, NCUA has decided to decouple regulation of interest rate risk from its RBC regulations. Instead, NCUA will handle interest rate risk by offering additional guidance. Municipal is concerned that interest rate risk is not factored into NCUA's risk-based framework. IRR remains a threat to the stability of credit unions in particular and the economy as a whole, especially give the temptation to "search for yield" with longer term investments during this period of historically low interest rates. Without imbedding interest rate risks until the final RBC regulations, NCUA will not be addressing the complete scope of risks that an RBC system should be designed to mitigate.

For similar reasons, Municipal urges NCUA not to further reduce its risk weightings for individual asset categories. For example, in commenting on the initial proposal we felt that the risk weightings for investments in CUSOs were entirely appropriate.

Municipal does, however, share concerns similar to other credit unions with regard to NCUA's assertion that it has the authority to impose buffer requirements for individual credit unions that exceed regulatory mandates to be well capitalized. Credit unions do exercise responsible management when they maintain capital buffers, but the size of buffers should be left to the discretion of individual credit unions and not regulators.

Municipal is supportive of an RBC framework in theory; properly implemented a system that creates a more nuanced mechanism for assessing risk between credit unions based on their size and sophistication would contribute to safety and soundness and help well-managed credit unions. There are still revisions that need to be made if NCUA is to create such a system and I hope that these comments will be helpful in that effort.

Sincerely,

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Cc: Kam Wong, President/CEO