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Federal Credit Union
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April 24, 2015

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

Via e-mail: regcomments@ncua.gov

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

Dear Mr. Poliquin:

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

Educational Systems FCU has nearly 90,000 members and over $787 million in assets. We commend the NCUA for reviewing its initial proposal and substantially improving it. However, we still believe the Proposed Rule is unneeded given the regulatory rules currently in place. With that said, we would like to address several major areas of concern in the Proposed Rule and provide our recommendations for improvement.

Section 702.104(b)(2) Risk-Based Capital Numerator Deductions:

The Proposed Rule deducts the NCUSIF deposit from the risk-based capital numerator. The NCUSIF deposit should not be deducted from the risk-based capital numerator or the risk-based asset denominator.

Recommendation
The NCUSIF deposit is under the NCUA's control, and it is supplementary to the capital available on a credit union's books in case of failure. Therefore, it should remain part of the risk-based capital numerator.

Section 702.104(c)(2) Risk-Weights for On-Balance Sheet Assets:

First Mortgage Real-Estate Loans (Excluding Commercial Real Estate):
The Proposed Rule would exacerbate the burden and costs of credit unions that hold first mortgage assets in excess of 35% by requiring higher levels of capital.

Recommendation

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. Soundly underwritten first mortgage loans do not measurably increase the risk to capital when in excess of 35% of total assets.

Investments in CUSOs:

CUSO investments are proposed to have a risk-weight of 150% irrespective of the type of business that is conducted by a particular CUSO.

Recommendation

Bring the risk-weight in line with loans to CUSOs as well as non-significant investments in unconsolidated equity for banks (100%) under the Proposed Rule, and only apply the risk-weight to the original investment amount in the CUSO. This would be much more consistent with the inherent risk of the investment and serve not to discourage the use of CUSOs to provide economies of scale for smaller credit unions.

Conclusion

As previously stated, the NCUA's revised proposal to create a risk-based capital standard is a step in the right direction. However, the Proposed Rule as written would still have significant negative financial consequences to credit unions and could place them at a competitive disadvantage. We advocate that the Proposed Rule be withdrawn. However, if implemented we believe the above recommendations would improve the Proposed Rule and allow credit unions to more effectively operate under this new standard.

Sincerely,

Chris Conway

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