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 the President & Chief Executive Officer of The Summit Federal Credit Union, I am writing on behalf of the credit union to comment on NCUA's revised Risk-Based Capital proposal. I want to thank NCUA for proposing an improved RBC framework based on the concerns expressed by credit unions across the country. However, The Summit remains concerned that NCUA continues to exaggerate the risks of certain credit union assets. In addition, NCUA still has not adequately explained why it is undertaking RBC reform at this time.

One of the most important improvements NCUA has made is to increase the asset size for complex credit unions. The Summit believes that basing compliance on asset size provides credit unions a bright line rule about when they will be subject to NCUA's RBC framework. However, in the preamble accompanying this proposal, NCUA indicates it is considering tying RBC compliance not only to a credit union's asset size but to the complexity of its investments. The Summit believes that such an approach would simply make it more difficult for credit unions to plan for managing future RBC obligations. Also, while we agree with an asset based approach to compliance obligations we remain concerned that the compliance threshold is still too low and should be raised above $100 million.

In the proposal, NCUA continues to suggest that it has the power to require credit unions to maintain capital buffers in excess of regulatory requirements. We disagree with this approach and instead believe the NCUA should follow the standards set by Congress and should not exceed these standards as the credit union industry has sustained very few losses and received no taxpayer bailouts. Instead, it is our opinion that if individual credit unions are taking excessive risks and need more capital this should be addressed in the examination process.

NCUA has still not effectively explained why it needs to alter the RBC framework. RBC systems try to anticipate risk and require collateral to be allocated accordingly. Assessing and mitigating risk essentially duplicates what is already done as part the audit and exam process. All credit unions are unique and numerical assumptions about risk ultimately don't account for important intangibles such as the expertise of a credit union's lending and compliance staff

Lastly, if NCUA does go forward with requiring an RBC framework, we recommend further refining the proposed regulation. NCUA should also reduce some of its risk weightings in the following areas:

- Goodwill
- National Credit Union Share Insurance Funds (NCUSIF) Deposit
- Other Real Estate Loans
- Mortgage Servicing Rights

A detailed recommendation on each of these items is presented below.

Goodwill

We believe that removing Goodwill from the numerator and denominator of the risk based capital calculation has the impact of treating all Goodwill as having absolutely no real value and writing it all off immediately. This is completely at odds with the accounting treatment required under Generally Accepted Accounting Principles (GAAP), which requires that Goodwill be written down as it is impaired. Goodwill assets are primarily recorded in credit union merger transactions, so the rule will negatively affect credit unions that have had recent mergers by failing to allow them to fully realize the previously accounted for benefit. In the future, the proposed treatment of Goodwill will present a disincentive for healthy credit unions to become merger partners for troubling or failing credit unions because of the possible significant negative effect to their risk-based net-worth ratio. We strongly recommend that Goodwill not be deducted from the numerator for the risk-based capital ratio, and treated as a risk asset with a weight of 100 in the denominator.

National Credit Union Share Insurance Fund (NCUSIF) Deposit

We believe that removing the NCUSIF Deposit from the numerator of the risk based capital calculation has the impact of treating all NCUSIF Deposits as having been, in effect, written off as having no value at all. This is politically in conflict with everything we have told Congress as an Industry for nearly 30 years. Due to the unique cooperative nature and structure of the NCUSIF fund, we believe this sends the wrong message to the entire financial institution industry, to the legislative branch of the government, and to credit unions. The 1% deposit is fully refundable should a credit union choose to disband or convert charters. This is an asset that has considerable value, and although at some level of risk due to potential losses, there is no indication that this deposit would ever be a 100% loss to any credit union. We strongly recommend that the NCUSIF Deposit not be deducted from the numerator for the risk-based capital ratio, and treated as a risk asset with a weight of 100 in the denominator.

Other Real Estate Loans and Delinquent Real Estate Loans

NCUA's proposed rule sets the risk rating for Other Real Estate Loans, up to 20% of assets at 100%, and over 20% assets at 150%. This compares to a risk weighting of between 50% – 75% for a non-delinquent first mortgage loan, 100% for a non-delinquent VISA loan, or 75% for a non-delinquent car loan. This seems to be penalizing credit unions who have chosen to keep home equity loans, which carry less interest rate risk, on their balance sheets versus long term fixed rate mortgage. The Summit has experienced very low loan losses on our home equity portfolio, so to weight home equity loans with a higher risk weighting than unsecured consumer loans seems unacceptable. Additionally, many members are able to utilize home equity loans to have a loan with tax deductible interest so that any disincentive for credit unions to make home equity loans could have the unintended consequence of hurting consumers directly by increasing their taxes and indirectly via turning to alternative loan types with higher interest rates. We would recommend the following risk weighted for Other Real Estate Loans and Delinquent Real Estate Loans:

- < 20% of assets: risk weight of .75
- Excess of 20% assets: risk weight of 1.00

Mortgage Servicing Rights

The proposed rule would set the risk-weight at 250 % for mortgage servicing assets (MSAs). We believe this is an excessive risk-weight relative to the actual risk presented by the underlying assets. MSAs are fairly liquid and gain value as rates rise. MSAs give credit unions opportunity to gain income and help manage interest rate risk. Also, credit unions do a great job servicing loans and want to continue to serve members. Many credit unions originate loans and then sell those loans to reduce interest rate and liquidity risk, yet retain the servicing due to the relationship with the member and because these are valuable assets. This arbitrary risk-weight provides a disincentive to retain those servicing rights. We recommend that the risk weight for mortgage servicing assets be reduced to 150 %.

I hope these comments are helpful as NCUA continues to work on this complicated and important issue.

Michael S. Vadala
President & Chief Executive Officer
The Summit Federal Credit Union