VIRGINIA Credit Union

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Via email: regcomments@ncua.gov

April 24, 2015

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

Re: NCUA Risk-Based Capital Proposal, RIN 3133–AD77

Dear Mr. Poliquin:

Virginia Credit Union (VACU) appreciates the opportunity to provide comments on NCUA's second proposed risk based capital rule (RBC2). We are a $2.7 billion state chartered credit union with 240,000 members.

Our largest concerns at Virginia Credit Union are related to the need for this additional regulation and the legality of it. The credit union industry was sufficiently capitalized to largely withstand the most significant financial crisis of the last 70 plus years. Through sound risk management practices and sufficient regulatory oversight the vast majority of credit unions continued to serve members. Failures and service disruptions were minimal while the industry continued to lend to members during their greatest time of need. Additionally, we feel that this regulation is aimed at preventing the last financial crisis even though it appears it would not have done so had it been in place. The next financial crisis is likely to be different from the last one, and by the nature of crises, not fully preventable. For these reasons we feel strongly that this regulation is not needed. We also question the legality of a two tiered risk based capital approach. It is also of concern that there is a dissenting vote on the NCUA board regarding this proposal. We feel that regulation of this magnitude should have unanimous support of the NCUA board.

If NCUA feels it must move forward with a Risk Based Capital Rule we request that the rule be tailored more to the unique cooperative nature of credit unions. We applaud NCUA for making changes in RBC2 that greatly improve the regulation compared to the original proposal. Some recommendations to further improve RBC2 are the following:

- We oppose the capital adequacy plan requirements in RBC2. We acknowledge that strategic capital planning is very important for credit unions. However, each credit union's long term desired capital ratio will depend on the credit union's own assessment of the risks it faces. Additionally, risk tolerance varies from credit union to credit union. It also would appear that there is a built in buffer on the risk based weightings required by NCUA. Credit unions generally want an additional buffer above well capitalized thresholds too. We feel that examiners should not have arbitrary discretion to require additional capital above and beyond the risk based requirements.

- Raising the asset cap to $100 million for applying risk based capital rules seems like a good idea on the surface. Perhaps some additional requirements for exemption should be added that demonstrate the smaller credit union is operating in a non-complex manner. It has been our experience from reviewing possible merger candidates that excessive risk in smaller credit unions can be a problem and does create a risk to the insurance fund.

- RBC2 makes a number of positive changes to RBC1's proposed risk weightings. However some risk weightings continue to be higher than banks (e.g. 1st mortgage loans over 35% of assets). Given that credit unions' loan losses compared to banks are consistently lower we can find no reason that risk weightings should be higher. We don't believe they should be lower either as credit unions may evolve to higher risk levels (resulting in higher losses) within loan portfolios.

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- We believe the treatment of goodwill and other intangible assets (OIA) needs additional improvement**.** Improvements have been made in RBC2 but we feel they should go further. Mergers (whether regulatory assisted or not) that may improve the surviving credit union, reduce loss exposure for the entire industry, and that are beneficial to members, should not be discouraged through artificially increased RBC requirements. The nature of "Purchase" merger accounting reduces credit union net worth. We do agree that annual goodwill impairment testing is appropriate.

- We believe that there is a place for supplemental capital in credit unions, and in the RBC calculation. This should be addressed (with RBC qualifying supplemental capital defined) before the rule is finalized.

- We believe that a separate interest rate risk rule should not be implemented. Examiners already have sufficient tools to supervise interest rate risk. IRR should be addressed in the annual examination and the unique nature of each credit union's liability structure (deposits and borrowings) as well as other IRR hedges in place should be considered. Recent FFIEC rules on managing IRR as well as NCUA rules are more than adequate for this. Credit unions that have pushed the limits on IRR should be addressed on a case by case basis as they should be easy for NCUA to identify prior to examination.

Thank you for considering our comments as you finalize these rules. Should you have any questions about our comments, please feel free to contact me at (804) 560-5615.

Sincerely,

Robert F. Warren, Jr.
Sr. VP/CFO