April 24, 2015

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

Re: Comments on Second Proposed Rule: PCA Risk Based Capital

Dear Mr. Poliquin:

On behalf of CDC Federal Credit Union, I appreciate the opportunity to comment again on the PCA Risk Based Capital Proposed Rule. CDC Federal Credit Union is a $278 million financial institution offering Loans, Deposit Accounts and other financial services to a membership of 17,000 people who are primarily affiliated in some way with the Centers for Disease Control and Prevention or other health services organizations. We have been in existence since March of 1949. Our financial model has been one of providing the membership with low cost lending, competitive market deposit yields and no or low fees to predominantly middle income members. We have chosen a model that sustains a well capitalized credit union (7 %+). Your proposal, referred to above threatens that model. I would suggest that most credit unions in the USA follow a similar model as ours. You may only hear from a small minority of us in reference to your proposal. If adopted, this proposal will lead to the acceleration in mergers of smaller credit unions into larger ones because of the higher requirement to comply with the new Risk Based Capital calculations which will multiply in the form of software, management, monitoring and much higher audit and examination fees. In order to recover these costs, loan rates must increase, deposit accounts will no longer be free, low cost, or receive competitive market interest rates and services may be eliminated. The American people will lose their local financial cooperative voice and one more option will be closed for many who have few options to begin with. We recognize and appreciate the changes that have been offered, however, we encourage the NCUA to once again withdraw this proposal.

It is our understanding that the reason for this proposal is to address the collapse that occurred among many financial institutions in 2008 and 2009. We understand the concerns of the agency in the loss of the nation's two largest corporate credit unions. We believe this proposal is an over-reaction driven by regulator fear of a re-occurrence of 2008 -2009 markets. We believe that steps previously taken by the agency strengthens its ability to manage and monitor credit union's net worth sustainability (i.e. monitoring the Supervisory Interest Rate Risk Threshold (SIRRT)). However, this proposal has been thrust upon us again and we feel compelled to respond with the following comments.

Our credit union does not have a high level of concentration in real estate loans, MBLs or high levels of delinquent loans. We do have a higher concentration in short term (hard maturity 3-5 years for the entire investment portfolio) of U.S. Government agency bonds (hardly a threat to capital or the National Credit Union Share Insurance Fund). The average life of our entire investment portfolio at March 31, 2015 is 2.0 years. So, how can that, short of basically a guaranteed portfolio (no credit or collateral risk), be a risk to the Share Insurance Fund? If our Agencies fail, we will experience systemic financial failure on a global basis and no assets will be secure. So, it is our assertion that the risk weights at 20% on Agency securities is still too high to capture and reflect the true risk to the credit union's portfolio and the Share Insurance Fund. We believe a 10% basis is more fair and reasonable.

Your proposal indicates that, in general, credit unions have high quality capital. I appreciate that admission and agree with it. Your proposal indicated that the NCUSIF experienced several hundred millions of dollars in losses due to failures of individual credit unions and holding inadequate levels of capital. However, a significant amount of this is due to two corporate credit union failures. So, it appears your proposal is justifying the raising of capital from a flawed premise that natural person credit unions have the same risk profile as a corporate credit union, which is not true.

It does appear that the proposal to develop a new risk based capital requirement for complex credit unions has succeeded. If a credit union was not complex prior to the proposal, it certainly will be from attempting to apply the new proposal to its own operations. Your proposal certainly adds complexity with requirements to address credit risk, interest rate risk, concentration risk, liquidity risk, operational risk and market risk. All of which are addressed by well run credit unions in their policies and procedures currently and part of every examination I have personally been involved with at a credit union. Your proposal's fifth goal has failed. Understanding and implementing programs and projects to address these new requirements will sap the energy of many $100+ million credit unions and their management teams and will hasten mergers, reducing the number of insured credit unions, requiring less NCUA personnel and fuel the cry for a single regulator (when considering it is so difficult to start a credit union).

Our credit union appreciates the Agency moving the implementation date back to 2019 which is the same implementation period for other financial institutions.

The NCUA has a right and a responsibility to be concerned about Interest Rate Risk (IRR). It is our credit union's position that NCUA already has all of the necessary tools at its disposal to monitor and regulate IRR. For example at our credit union, in the name of IRR, we are being "hammered" over the Long Term Assets (LTA) to Total Assets (TA) ratio. Our ratio is in the 40s and our policy states we will tolerate 50% or less. Now if we had a large first mortgage portfolio I could understand the NCUA's concern. However, we are a $278 million credit union with $14 million in first mortgages with $4 million in ARMs (overall loan to share (LTS) of 33%). We have an investment portfolio of $160 million. Our Investment policy has a provision in it limiting the purchase of securities 60 months or less and we have had that in place since the summer of 2012. Each year the NCUA comes into our credit union and "recommends" on a DOR that we keep investments to less than 5 years (like they thought of that). We have no intentions to change that anytime soon in the current rate environment and as NCUA notes, we have been faithful to that policy and have not purchased any securities with a maturity in excess of 5 years. Further, we only purchase bullets and callables when they have value. Now I ask you, where is the risk in a rising rate environment? Is it in our portfolio of agency securities (FHLMC, FNMA, FHLB, FFCB) with maturities less than 5 years (46% callables, 54% bullets) with IRR but no credit, collateral or extension risk, or is it with the credit union that has $100 million in first mortgage loans with IRR, collateral risk, extension risk, credit risk and LTS of 65%? Yet we will be "hammered" by your Agency with IRR and a DOR backed by a LTA/TA ratio in the 40s along with a "moderate" risk rating. Therefore, it is my assertion that in a rising rate environment our credit union will be the least of their worries as we will have the ability to ride the wave of re-pricing because we have managed our IRR today instead of 3 years from now.

If the NCUA is insistent on changing to this new risk based model, which we do not see nor understand the necessity to do, then I implore the NCUA to be tolerant of during the extended implementation period sensitive to medium asset sized credit unions ($250 - $500 million) expected to implement these changes. This proposal is sweeping and unprecedented. Therefore, a generous helping of accommodation, forbearance, guidance, knowledge and patience should rule the day.

Thank you for entertaining my thoughts on this ill timed proposal.

Sincerely,

Walter L. Hobby, CPA, CGMA
Chief Financial Officer
CDC Federal Credit Union