Wings
FINANCIAL
CREDIT UNION

April 27, 2015

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

RE: Comments on Proposed Rule: Risk-Based Capital

Dear Mr. Poliquin,

Thank you for the opportunity to once again comment on the proposed Risk Based Capital (RBC) regulation. We appreciate the attention given to the comments presented after the initial proposal and note that a number of positive changes were made as a result. In its current form, we still believe there are areas that could be improved before the proposed regulation is finalized.

Exclusion of the NCUSIF Deposit

The proposed rule deducts the NCUSIF deposit from the risk-based calculations and we disagree with this approach. GAAP recognizes this deposit as an asset and as such it should be included in the risk-based calculations. While we appreciate the desire to craft RBC regulation to be similar to banking regulations, it's not appropriate to equate the NCUSIF deposit to FDIC premiums. Unlike FDIC premiums paid by banks, the funds paid to NCUSIF are a deposit and could be returned or refunded to a credit union under a number of different scenarios. It should also be noted that the funds are under the full control of NCUA and therefore risk of loss of these funds should be very low. We suggest that the NCUSIF deposit be included as an asset of the Credit Union and given a 0% risk weight, similar to cash deposits held at the Federal Reserve.

Treatment of Goodwill

The proposed rule creates significant complexity around the treatment of Goodwill. GAAP recognizes Goodwill as a legitimate asset, and this recognition is based on extensive research and analysis by accounting experts. Absent a compelling reason, goodwill should not be limited for regulatory purposes, and we do not believe that the Agency has demonstrated a compelling reason to limit it. We believe that limiting goodwill under the rule will increase the costs incurred by the Agency (and passed on to the industry) when seeking merger partners for troubled credit unions. Further, temporary acceptance of Goodwill's legitimacy as a regulatory asset, but only under certain circumstances, creates a high likelihood of errors being made by credit unions and field examiners when applying the complex rules. Finally, Goodwill is present on a fairly limited number of credit unions' balance sheets making the promulgation of rules surrounding its treatment of little value in the regulation of an entire industry.

Risk Weights

NCUA made many significant and positive changes to risk weights in the revised proposal. We continue to question some of the risk weights, which still seem either too high or arbitrary. In general terms, products offered or owned by credit unions are the same as the products offered or

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owned by other financial services providers. Absent a compelling reason, similar products should be assigned the same level of risk by all financial service regulators. We find it concerning that certain risk-weights proposed are more punitive than those applied to banks which we believe puts credit unions at a distinct competitive disadvantage and that there is no compelling justification for the differences. Comments on specific risk weights are as follows:

Mortgage Servicing Rights

Mortgage servicing rights (MSRs) are given a risk weighting of 250%. While this is commensurate with the risk weighting applied to banks, the relatively high weighting seems contrary to the credit union philosophy of building a relationship with and serving its member base. We believe that the experience and focus of credit unions justifies a different risk weighting in this instance. The 250% weighting puts a very high price tag on the ability of a credit union to continue to serve its member after a mortgage is sold as part of prudent balance sheet management strategy. While still arbitrary, we believe a lower risk weighting would be appropriate

Additionally, while we applaud the effort by the NCUA to remove interest rate risk (IRR) measurement from the initial proposal, we believe that the application of anything greater than 100% risk weight to MSRs is in reality an incorporation of IRR into the RBC analysis. The application of a risk weighting greater than 100% is an attempt to capture the volatility of the value of the underlying asset which in this case is the MSR. Fluctuations in MSR values are largely, if not completely driven by changes in interest rates and the resulting opportunity or lack of opportunity to refinance the underlying mortgage. To achieve the stated objective of removing IRR from the RBC analysis MSRs must be assigned a risk weighting of 100%.

CUSO Investments

A risk weighting of 150% does not recognize the fact CUSOs are regulated, either directly or indirectly by the NCUA, and that the Agency is campaigning to formalize its oversight of CUSOs. It seems incongruous that other asset classes not subject to the degree of regulatory oversight given to CUSOs are assigned lower risk weights than the proposed risk weighting assigned to CUSOs.

CUSOs provide for the cooperative sharing of resources and expertise for the benefit of the cooperating credit unions allowing them to realize efficiencies or to gain access to products or services which an individual credit union may not be able to achieve. This activity should be encouraged by NCUA rather than discouraged as is probable with a risk weighting greater than 100%. Also, differentiating risk weights between an unsecured loan to a CUSO at 100% and an equity investment to the same entity at 150% appears unjustified.

<u>Additional Capital above the RBC Level</u>

Giving field examiners latitude to require higher levels of capital and to require a plan for reaching those higher levels significantly impairs the benefits of the currently proposed RBC regulation. If the RBC regulation is appropriately designed there is no need to introduce subjectivity into the analysis. Further, inconsistencies between field examiners when exercising the proposed authority will result in similarly positioned credit unions being held to different capital standards, an outcome the regulator and the regulated should find unacceptable. Removal of this provision will greatly improve the effectiveness of the regulation.

Interest Rate Risk Suggestions

Wings questions the need for an interest rate risk regulation as IRR rarely, if ever, causes systemic, let alone individual financial institution failures.

If NCUA sees the need for new regulations addressing interest rate risk we encourage the focus should be on earnings and profitability, rather than balance sheet valuation. Valuations are transitory, extremely subjective and give no credence to management's ability to address the transitory/subjective valuation challenges. Application of an extremely unlikely scenario, a +/- 300 basis point instantaneous and across-the-curve shock, has very little value. In fact, such a scenario has never occurred which logically leads to a less than 1% (more likely, lower) probability of it ever occurring. Holding credit unions to financial measures for such an improbable, ultra conservative scenario can only lead to diminished member value and service which hurts the entire industry while not enhancing the risk profile.

Admittedly a change in interest rates will impact earnings but models can evaluate whether management's planned responses to the rate changes will make the impact a temporary phenomenon or not. Management should be expected to forecast at least 3 years forward, preferably 5 years forward and ideally 7 years forward evaluating the programs they could/would implement if interest rates were to change. In combination with the proposed RBC regulation which provides assurance a credit union would enter into a changed interest rate environment with a strong initial capital position, the regulator should be confident the credit union will survive until the impact of management's projected responses are realized.

Thank you for the opportunity to provide comments on the current proposed Risk Based Capital regulation. Wings appreciates its suggestions being given thoughtful consideration by NCUA for positive change to the final regulation.

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