MECU

Baltimore's Credit Union

April 27, 2015

To: regcomments@ncua.gov

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

RE: **Comments on Proposed Rule: PCA - Risk-Based Capital**

Dear Mr. Poliquin:

The Municipal Employees Credit Union (MECU) of Baltimore, Inc. serves over 110,000 members and appreciates the opportunity to comment on the National Credit Union Administration (NCUA) Board's second proposal to revise Prompt Corrective Action related to Risk-Based Capital. Management would first like to thank the NCUA for listening to the first round of comments and for improving the risk weighs for RBC2 and for lowering the RBC requirement from well-capitalized credit unions from 10.5% to 10.0%.

However, the question still remains as to whether separate RBC requirements for well-capitalized and adequately capitalized credit unions are permissible under the Federal Credit Union Act Section 216(d) as pointed out by NCUA Board member J. Mark McWatters's. There is no evidence that risk based capital requirements, utilized by the banking regulators, work any better than the net worth requirements currently imposed by the NCUA. Banks have had risk-based capital requirements for over 20 years and these requirements neither prevented the latest crisis in 2007 nor stopped significant failures in the banking system.

The credit union industry emerged from the Great Recession of 2007 in strong financial condition despite the burden to recapitalize the NCUSIF. Most credit union failures, including the Corporates, were the result of high concentration levels in risky loans and investments that probably should have been identified in the examination process

The following are the comments that MECU is asking the NCUA to consider in developing the final version of the Risk-Based Capital Rule.

1. **Investments in CUSOs should be risk weighted at 100 percent as opposed to 150% under the Proposed Rule.**

The risk weights for CUSO investments remains too high and could affect the credit union's ability to own and operate CUSO's. MECU has been actively involved with operational CUSOs over the years. MECU is a part owner in the CUSOs and exposure is limited to the credit union's investment in each of the CUSOs. The NCUA already limits a credit union's investment in CUSOs, under NCUA Rule 712.4, so it makes no sense to impose a 150% risk weighting on CUSO investments. MECU believes CUSO investments should be risk weighted at no more than 100%.

2. **Mortgage servicing rights risk weighting at 250% is excessive.**

Mortgage servicing rights are recorded in accordance with Generally Accepted Accounting Principles and pose minimal risk to the balance sheet. By weighting these assets at 250%, the credit union is deterred from offering longer term mortgage products that are essential to our members and to the overall health of the economy. Simply put, we want our members to own homes. Selling mortgages allows the credit union to provide mortgage products to our members while at the same time eliminating interest rate risk from the balance sheet, a primary concern of the NCUA.

3. **Consideration should be given to permit federally insured credit unions to offer supplementary capital.**

Credit unions remain the only financial institutions that do not have access to sources of capital beyond retained earnings. If higher capital standards are to be imposed on the credit union industry under the Proposed Rule, affording credit unions the ability to raise supplementary capital the counts towards net worth requirements seems to be an appropriate policy consideration.

4. **The NCUSIF deposit should not be deducted from the risk-based capital numerator.**

The National Credit Union Share Insurance Fund 1% deposit is being ignored in the risk-based capital calculation. The NCUSIF deposit is a valid asset that can be refunded for various reasons including conversion to a bank or savings institution charter, a credit union electing private insurance instead of NCUA or voluntary liquidation. In addition, the deposit can specifically be attributable to a failed credit union providing an additional buffer against NCUSIF losses in addition to the failed credit union's capital. By deducting the NCUSIF deposit from assets and equity, it implies the deposit itself has no value. If one of the primary objectives of the Rule is to identify risks to the share insurance fund, then deducting the deposit implies a market value of zero and that the deposit should be expensed by the credit union.

5. **Eliminate the expiration date of January 2025 for the provision that allows a credit union to factor goodwill resulting from a supervisory merger into its RBC calculation.**

As the largest credit union in Baltimore City, MECU is occasionally asked by the NCUA and the State of Maryland to consider supervisory mergers in an effort to protect the insurance fund and to offer a credit union solution to the members of a troubled institution. Allowing the acquiring credit union to factor in goodwill, resulting from a supervisory merger, into its RBC calculation contributes to the financial business case for executing the merger. Eliminating the provision in 2025 could negatively impact the acquiring credit union's decision to execute a supervisory merger.

6. **Eliminate the requirement in the new proposal that a covered credit union must maintain capital commensurate with the level and nature of all of its risks and must have a process to determine its capital adequacy in light of its risk and a comprehensive written strategy to maintain "an appropriate level of capital".**

MECU is concerned that this proposed requirement, once again, could subject the credit union to higher capital requirements than what a final RBC rule might provide. This provision would allow for examiners to continually demand additional capital and potentially subject the credit union to additional scrutiny in regards to its capital level and capital plans.

In summary MECU feels the Proposed Risk Based Capital Rule will increase costs to members, expand the right of the NCUA to interfere in the governance of credit unions through Prompt Corrective Action and threaten the financial stability of the industry in the long term. The Rule focuses on a regulator's model designed to identify concentration rate and not member needs, has the potential to override the Board's and Management's judgments on business strategy and risk and leaves the credit union subjective to examiner and Agency abuse. The Proposed Rule, in its current form, will most likely reduce the risks to the NCUSIF but at a significant cost to credit unions and their members through reduced returns, higher-costs and increased complexity of preparing the 5300 Call Report.

Management feels the current Proposed Rule will have negative effects on MECU members and discourage investments in long term strategies necessary to the survival of the credit union. This will force management to reshape the credit union's business model and as it relates to long term investment, lending and expansion strategies negatively impacting the member experience and making the credit union less competitive with banks and other competing financial institutions. The Rule could inhibit MECU growth and discourage the credit union form investing in branches and new technology.

Thank you for the opportunity to comment on the Proposed Rule and for listening to MECU's concerns. Please feel free to contact me with any questions or comments regarding MECU's comments on the Proposed Rule.

Sincerely,

Adrian S. Johnson
Senior Vice President & Chief Financial Officer