MyCommunity
FEDERAL CREDIT UNION

April 27, 2015

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

Dear Mr. Poliquin,

We appreciate the opportunity to comment on the second Risk-Based Capital (RBC2) Proposal by the National Credit Union Administration. We also appreciate that NCUA listened to the over 2200 letters submitted by Credit Unions, Trade Organizations, CUSOs and Vendors all with a vested interest in the success of the credit union industry and made significant changes to the first proposal. However, we still must question whether the regulation is necessary at all.

The credit union industry is unique from other financial institutions in that it is member-owned and cooperative in nature. In fact, the credit union industry, due to this cooperative nature, fared much better than the banking industry with the mortgage crisis and the recession that ensued. What should not be overlooked is that the banking industry already had in place a Risk-Based Capital model similar to the one currently being proposed by NCUA. That model did little to protect the banking industry. The Federal Credit Union Act requires NCUA to take into consideration this cooperative nature in making rules affecting credit unions. For these reasons, the credit union industry should not be regulated like a bank.

While My Community Federal Credit Union will remain a "Well-Capitalized" credit union under the new proposal, our biggest concern is the disincentive that the new regulation creates for credit unions to grow and expand into new products and services in order to compete with our banking counterparts. The big banks (Bank of America, Wells Fargo, Chase, etc.) hurt the image of banks in general and opportunities exist for credit unions to seize the opportunity and be more involved in mortgage lending, business lending and mortgage servicing. However the risk weights associated with these will limit the number of credit unions who will actually expand into offering such services. Additionally, there are opportunities to create value-added services through creation of or investment in a CUSO, but again the risk weightings would prohibit some credit unions from taking that next step in their evolution.

If credit unions fear such actions would result in a lower capital classification and added regulatory scrutiny, or that costs associated with implementing this regulation will be excessive, they will avoid expanding their financial services. This would force individuals who don't trust banks or want to use

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them, to default to using banks simply because they don't have a choice. The financial services industry is stronger when individuals have more choice.

While the second proposal is an improvement on the first, we still have concerns with certain risk weightings and provisions:

Mortgage Servicing Rights: The choice to sell mortgages and retain servicing rights is one that should be viewed favorably by NCUA because it helps to reduce a credit union's Interest Rate Risk. By assigning a risk-weighting of 250% to such assets, this proposal discourages credit unions from doing so.

CUSO Investments: The reason for a CUSO is often to allow a credit union to offer a much-needed service that the credit union can't offer. In many cases having a CUSO will allow a credit union to offer a service without taking on the expense or risks associated with that line of business. It also encourages collaboration amongst credit unions. And, if the credit union made a wise choice and the CUSO increases in value then they seem to be punished. This higher risk weighting will further limit CUSO investment and financial services to members and potential members.

Publicly Traded Equity Investments: Recently, the NCUA agreed to allow credit unions to purchase some publicly traded equity investments provided the investments are purchased to offset the increasing benefits costs and the credit union limits the amount of capital it will invest in such instruments. To assign a risk weighting of 300% on such investments will deter some credit unions from taking advantage of this provision and allowing the credit union industry to retain talent in key positions. It is likely that the loss of such talent would create more risk for the credit union and the industry.

Definition of Complex Credit Union: A credit union should not be considered "complex" based solely on its asset size reaching a particular milestone. Rather a credit union should be considered complex based on the sophistication and complexity of its balance sheet. If an asset size is to be considered, then a more appropriate threshold would be $500 million.

Treatment of NCUSIF: The industry's first line of defense in terms of risk is the NCUSIF deposit. All credit unions are required to maintain these assets with NCUA for them to invest to offset losses. These assets are required by NCUA, and the credit union has no control over how they are invested. They should be included in capital and in the denominator for this calculation.

Interest Rate Risk (IRR): We appreciate that NCUA removed the IRR components of the risk weightings. However, we understand that NCUA still looks to implement a method to further address Interest Rate Risk. We feel that the Interest Rate Risk regulation that was recently approved and the Examination process address Interest Rate Risk appropriately.

Capital Adequacy Plan: Under the current plan, certain credit unions who fall into Prompt Corrective Action are required to complete a Net Worth Restoration Plan. This requires a considerable amount of time on the part of the credit union and on the part of NCUA to review these plans and to see that the credit union is following such a plan. Under the proposed plan, all credit unions considered "complex" would be required to complete a Capital Adequacy Plan to assess the sufficiency of their capital on an ongoing basis and possibly set aside additional capital above the 7% net worth and 10% Risk-Based Capital requirements. Further it allows discretion for an NCUA Examiner to require additional capital even when deemed to be a "Well Capitalized" credit union. This should not be allowed. Objective criteria and rules should be established to identify specifically under what conditions a credit union will be required to have additional capital when they are deemed to be "Well Capitalized" under the rule. Failure to do so creates inconsistencies between examiners at a time where NCUA has been working to create more consistencies. It would also create extra work and expense for credit unions and NCUA.

In conclusion, we respectfully request that NCUA continue to use the current model and regulations to set regulatory capital requirements for credit unions. If a risk-based capital model is to be considered, then we would request the above be taken into consideration.

Sincerely,

Mark T. Williams
Chief Financial Officer