April 27, 2015

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

RE: RIN 3133-AD77

Dear Mr. Poliquin,

This letter is in response to the proposed Prompt Corrective Action – Risk Based Capital (RBC) rule. Although the Federal Credit Union Act (FCUA) does direct the NCUA to devise a risk-based capital requirement comparable to the system in effect for banks, the FCUA also requires NCUA to take into account the unique nature of credit unions. We believe this unique nature has not been considered when crafting this rule.

Navy Army Community Credit Union (NACCU) is a $2.2 Billion Credit Union headquartered in Corpus Christi Texas and serves 136,000 members. We have concerns over the rule's potential negative impact in regards to the treatment of goodwill, mortgage servicing rights, the excessive risk weighting on CUSO investments, and the Loan Risk Weights of First Mortgages.

NACCU's strategic plan includes consideration of strategic mergers as part of our long-term growth strategy. RBC2 permits goodwill in "supervisory" mergers to be included in the RBC numerator until 2025, but other forms of goodwill remain excluded. This will negatively impact our business decisions regarding merger opportunities in the future. We believe our ability to negotiate strategic mergers of small credit unions may, in fact, reduce future losses to the insurance fund. We believe that goodwill should not be immediately deducted from the numerator of the risk-based capital ratio. If deducted, the deduction should be phased out over a ten-year period.

NACCU's strategic plan also includes moving from a 100% mortgage portfolio lender to selling to the secondary market to assist in the management of interest rate risk. The current proposal is to assess a 250% weighting factor to these Mortgage Servicing Rights (MSRs). A member's mortgage loan is usually the most significant financial transaction they have with us. The only way we can manage our member relationship after a sale is to hold that MSR asset on our Balance Sheet and continue to service the loan. The NCUA has stated that providing that type of high-level service is exactly the type of relationship credit unions should be providing their members. The new proposal seems to penalize us if we try to service these loans after the sale.

PO Box 81349 | Corpus Christi, Texas 78468-1349 | 361-986-4500 | 800-622-3631 | www.navyarmyccu.com

Another of NACCU's strategic plan initiatives includes consideration of offering financial services that may be delivered in a CUSO arrangement, such as affordable investment and insurance services. RBC2's higher capital requirements will negatively impact NACCU's ability to participate in CUSOs over the longer term. The risk weighting of 150% assigned to CUSO investments will require additional earnings to build capital. We believe investments in CUSOs should carry the same 100% risk weight as loans to CUSOs. CUSOs provide many credit unions the ability to collaborate with others in the industry to maximize resources and to offer services to their members that they would not be able to provide on their own.

First Lien Residential Mortgage Loan Risk Weights in the proposed rule create a competitive disadvantage for credit unions when compared to bank capital adequacy requirements. The FDIC rule weights all first lien mortgages at 50%. The NCUA' s rule contains a two-tier approach where only concentrations below 35% of credit union assets are assigned the 50% risk weight, and concentrations of 35% and greater are weighted 75%. This makes credit union capital requirements higher than banks and creates a competitive disadvantage. It does not appear to us that there is sufficient evidence that exists for the proposed rule's risk weighting of these loans. Mortgage lending did contribute to the failure of a few (less than 30) credit unions during the financial crisis of 2008 to 2011. Given the large number of credit unions that participate in mortgage lending we would suggest that is not a significant number; Considering the residential real estate meltdown experiences in most of the United States, having only a few failures caused in whole or in part by residential mortgage lending is a demonstration to credit unions overall having strong loan underwriting an loss mitigation practices.

Finally, NCUA has requested comments regarding supplemental capital. Considering the rigorous capital adequacy requirements of the proposed rule and the impact it may have on NACCU's strategic initiatives, if this rule is approved it will be imperative the NCUA approve secondary capital authority for credit unions.

Thank you for the opportunity to review and respond to this proposed regulation.

Sincerely,

Sarah O'Brien

Sarah O'Brien
President / CEO
Navy Army Community Credit Union
PO Box 81349
Corpus Christi, TX 78468-1349