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April 27, 2015

ECCU

Board of the National Credit Union Administration
c/o Gerard Poliquin, Secretary of the Board
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: NCUA's Revised Risk Based Capital Proposal, RIN 3133-AD77

Dear Board Members of the National Credit Union Administration:

Evangelical Christian Credit Union (ECCU) appreciates the opportunity to submit this letter in response to the National Credit Union Administration (NCUA) Board's request for comments on the NCUA's second proposed risk-based capital rule (RBC2).

As we stated in our previous letter dated May 20, 2014, ECCU generally supports NCUA's proposal to replace the current risk-based net worth framework with a risk-based capital approach consistent with Basel III standards recently adopted by federal banking regulators. We acknowledge the revisions that have been made in RBC2 and believe it represents an improvement over the original proposal. However, we believe that the revisions have not gone far enough to correct some of the serious shortcomings that existed in the original proposal.

ECCU believes a modern risk-based capital approach for credit unions is acceptable. However, new capital standards should be consistent for all federally insured financial institutions. Significant differences in risk-based capital requirements for credit unions as compared to the Basel III standards required of community banks will result in competitive disadvantages for credit unions which will impact service to members.

In addition, we are concerned that the one-size-fits-all approach to evaluating capital adequacy does not take into account the uniqueness or complexity of our credit union. Measuring, monitoring, and mitigating balance sheet risk is a complex task that should not be managed strictly through a one-dimensional capital requirement. ECCU recommends that NCUA provide additional training to examiners to ensure that they are well-equipped to ask the right questions during onsite exams. This would enable them to better identify the specific risks in a balance sheet, rather than relying on a standardized rule to measure capital adequacy.

ECCU recommends that NCUA consider additional changes to the risk-based capital rule in three main areas: 1) eliminating the risk-weight escalation for higher concentrations of Member Business Loans (MBLs); 2) reducing the risk weighting for mortgage servicing rights, and 3) permitting the use of supplemental capital for meeting the risk-based capital requirement.

Eliminating the risk-weight escalation for higher concentrations of Member Business Loans

RBC2 makes a number of positive changes to the original proposed risk weightings, including changes to the risk-weight escalation for higher concentrations of MBLs. The new tiers are an improvement; however, we believe the segmentation for risk weightings for MBLs is still overly punitive and it does not exist in other asset classes. The 150% risk weighting for MBLs over 50% of assets is higher than that for unsecured credit cards and other consumer loans, residential mortgages (including delinquent residential mortgages), and nearly all investment categories (including non-guaranteed investments). We believe the risk-weight escalation for higher concentrations of MBLs should either be removed, or the risk weights should be adjusted downward to levels no more than those in place for banks, as credit unions do not have higher levels of risk associated with holding these assets.

Reducing the risk weighting of Mortgage Servicing Rights

The 250% risk weighting for Mortgage Servicing Rights was unchanged from the first proposal. This is an asset that has no recourse for the credit union and presents very little risk. We believe this risk weighting is much too high and should be significantly lower in the final risk-based capital rule.

Permitting the use of supplemental capital for meeting the risk-based capital requirement

ECCU believes that NCUA should permit the use of supplemental capital in the calculation for risk-based capital and should strongly advocate for statutory capital reform that includes supplemental capital for the purposes of prompt corrective action.

Because supplemental capital is not available to credit unions, the well-capitalized standards proposed by the NCUA will be more challenging for credit unions to achieve than their bank counterparts. Therefore we urge NCUA to allow the use of supplemental capital for any complex federally insured credit union to meet its RBC requirements.

Even though supplemental capital cannot be included in net worth for most credit unions without a change in federal law, NCUA has the authority to allow it to be included in the numerator of the risk-based capital ratio for RBC, which already includes items that are not part of net worth. We believe such a provision should be included in the final RBC rule.

We appreciate your commitment to consider these comments and make additional changes to the proposed risk-based capital rule for the benefit of the credit union industry and the members we serve. Please contact us if you have any questions.

Sincerely,

Van C. Elliott
Chairman, Board of Directors

Abel Pomar
EVP, Chief Operating Officer