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; RIN 3133-AD77

Dear Gerald Poliquin,

I am writing to you on behalf of the members, Board of Directors and employees of Quorum Federal Credit Union concerning NCUA's most recent risk-based capital proposal as referenced above and more commonly referred to as RBC2. We appreciate the opportunity to comment on this proposed rule and offer the following comments on various aspects of the proposed rule for your review and consideration.

Overall Need for Proposal is Questioned

Although we understand and support the GAO recommendations to homogenize risk-based requirements for different types of U.S. financial institutions, we are concerned about the approach NCUA is taking to implement these recommendations through this proposal. Without question the introduction of bank-like components of risk-based capital into the credit union system helps to accomplish that goal; however this proposal would also require credit unions to hold significantly more capital (either by over weighted risk levels or the 10% capital level) than is necessary in our view.

Credit unions should not be compelled to hold higher capital levels just for the sake of retaining more capital in the system. As natural person credit unions demonstrated during the Great Recession, greater capital was not necessary, and frankly had RBC2 as currently proposed been in effect, the NCUSIF would have been no better off.

In fact, it could be argued that increasing capital through a regulatory mandate may actually have the effect of weakening our industry by starving us of the resources necessary to invest and compete in a dynamic and continually evolving financial marketplace. This coupled with what many industry and legal experts believe to be unclear statutory authority for NCUA to impose a two-tiered risk-based capital system presents significant concerns and as warrants a serious reevaluation by the agency of the necessity of such a far-reaching proposal in our view.

Mortgage Servicing Risk Weights Still Excessive

While the risk weights of RBC2 are greatly improved from the original proposal, we believe mortgage servicing assets are still very high at the current proposed weight of 250%. Frankly, we are hard pressed to understand the justification at this level. We have reviewed ours and other credit union variances from year to year and cannot justify the proposed risk weighting levels. As such, if the Board is intent upon pursuing the adoption of RBC2 we would strongly urge the agency to significantly reduce risk weights associated with mortgage servicing. At a minimum, a further reduction of 50 to 100 basis points should be considered and, in our view, would more accurately represent how the majority of credit unions deal with servicing rights on mortgages.

Interest Rate Risk (IRR)

In our opinion, the NCUA Board has vastly improved and simplified the proposal by removing IRR from the RBC2. You have asked for comment on whether this should be added back later or as a component to the Prompt Corrective Action system. We believe the rule adopted by NCUA in 2012 is adequate and the subject is best addressed in the examination and supervisory process. Asset liability and interest rate risk management are specialized at each financial institution. Any attempts to force a one-size-fits-all control will significantly limit the ability of credit unions to creatively and effectively compete in the marketplace.

Capital Adequacy

While the elimination of examiner-determined individual minimum capital requirements from the risk-based proposal is welcomed news, continuing to grant the NCUA board the authority to re-classify a credit union capital levels is counterproductive to the whole risk-based capital proposal. Integral to a capital strategy is the stability and predictability of a uniform policy to best plan for growth and investment. An arbitrary and subjective determination made by an NCUA board not only removes that stability, but can also raise questions of politics and impropriety.

While the trigger to be classified a well-capitalized credit union under the proposed risk based capital structure has been slightly lowered in the second proposal from 10.5% to 10.0%, it continues to be an excessive and unnecessary threshold in our view. Although slightly reduced from RBC1, the proposed regulatory threshold is still 300 basis points more than the statutory requirement to be classified as well-capitalized at 7% which as you know is well above what is required of community banks.

Again, we seriously question NCUA's legal authority to mandate such a threshold and believe that this excessive regulatory threshold is a serious flaw in the proposal that could have significant long-term consequences for our industry if not properly addressed in the final rule. While we continue to maintain that any capital threshold should be consistent with the statutory requirement of 7%, we strongly feel that if an additional regulatory capital trigger is to be included in any final rule that may be adopted that it be significantly reduced.

In closing, please know that we appreciate your efforts in addressing the need for a safe and sound capital structure and system for credit unions. That said, we believe it is also important for NCUA to balance any proposed regulation in this regard with the ability of credit unions to compete. Simply raising capital standards without providing credit unions with the ability to generate additional earnings necessary to compete and deliver member service will have a chilling effect on safety and soundness and the long term viability of our industry. Therefore, we urge NCUA to carefully reconsider this proposal and take the time needed to get it right. The cost is too high if we get it wrong.

Again, thank you for the opportunity to comment on this important proposal. Please do not hesitate to contact me with any questions you may have.

Sincerely,

Bruno Sementilli

President/CEO

Quorum Federal Credit Union

Sincerely,

Bruno Sementilli
President/CEO
Quorum FCU

cc: CUNA, CCUL