From: Douglas Allman
To: _Regulatory Comments
Subject: Comments on Proposed Rule: Risk Based Capital, 12 CFR Parts 701, 702, 703, 713, 723 and 747
Date: Saturday, April 25, 2015 7:33:48 PM

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

Via e-mail: regcomments@ncua.gov<mailto:regcomments@ncua.gov>

Dear Mr. Poliquin:

NASA Federal is currently a $1.6 billion credit union with approximately 110,000 members.

While we appreciate the NCUA's perspective to better balance a credit unions risk posture to its capital reserves, we believe the Revised Proposed Rule can still be improved.

Our concerns and recommendations are:

Section 702.104(b)(2) Risk-Based Capital Numerator Deductions:

The Proposed Rule deducts the NCUSIF deposit from the risk-based capital numerator. It is not clear as to what the NCUA’s intent is regarding the NCUSIF deposit.

Recommendation
The NCUSIF deposit should not be deducted from the risk-based capital numerator or the risk-based asset denominator. The deposit is under the NCUA’s control and it is supplementary to the capital available on a credit union’s books in case of failure. Therefore, it should remain part of the risk-based capital numerator.

Section 702.104(c)(2) Risk-Weights for On-Balance Sheet Assets:

First Mortgage Real-Estate Loans (Excluding Commercial Real Estate):
The Proposed Rule would exacerbate the burden and costs by requiring higher levels of capital for those credit unions that hold first mortgage assets in excess of 35% of total assets.

Recommendation
Eliminate the higher risk-weights for concentrations of residential first mortgage loans. Credit unions and their members will both benefit by not increasing their costs to fund these loans and credit unions will not be at a competitive disadvantage to other financial institutions.

Junior Liens:
As the housing market continues to recover, junior liens are becoming an important financial tool for homeowners to use.

Recommendation
Eliminate the higher risk-weights for concentrations of junior liens. This will ensure that credit unions will not be at a competitive disadvantage to other financial institutions.

Investments in CUSOs:

CUSO investments are proposed to have a risk-weight of 150% irrespective of the type of business that is conducted by a particular CUSO.

Recommendation

Bring the risk-weight in line with Loans to CUSOs under the Proposed Rule and only apply the risk-weight to the original investment amount in the CUSO. This would be much more consistent with the inherent risk of the investment and serve not to penalize the success of the CUSO.

High Cost of Proposal

If finalized, the Proposed Rule would be a burden on our members and indeed impose a very high costs on the credit union industry. NCUA estimates the proposal to cost credit unions roughly $5.1 million to review the rule-making and make necessary changes to current policies.

Recommendation

The proposal should at best be eliminated but at least be revamped to reduce the initial and ongoing costs. Current standards are sufficient to regulate. Credit unions that require scrutiny can be handled through the existing examination process.

Conclusion

The NCUA's view that there needs to be a correlation between capital reserves and risk posture is in the right direction. However, the Proposed Rule would have significant negative capital consequences to the industry and could place it at a competitive disadvantage relative to banks. Our recommendations would respectively improve the Proposed Rule and allow credit unions to confidently operate under this new standard.

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Doug Allman, President and CEO

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