April 27, 2015

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

Dear Mr. Poliquin:

On behalf of our members and Board of Directors, we want to thank you for the opportunity to once again comment on the NCUA's second proposed Risk-Based Capital rule (RBC2). Although the revised version of the current RBC was a significant improvement from the current rule, it clearly needs additional improvements as the proposed rule will have a negative impact on our ability to service our members. RBC2, under its current form, will prevent our Credit Union from making loans to our members that other institutions would not make. We need to be able to continue to service these members by providing them with the loans they need that in turn will provide them access to owning a home or even starting/expanding a small business. The restrictions of this proposal will force management to decline loans or discontinue loan programs simply because we will have to comply with the RBC limits. We have been a prudent lender for decades and we make loans to our members that are good for them and make good business sense to the Credit Union.

The revised proposal has a line item (Loans transferred to FHLB under the Mortgage Partnership Finance Program) under the Off Balance Sheet section for credit unions to report their off balance sheet risk and, in particular, loans sold to Federal Home Loan Bank (FHLB). This line item requires your attention since it does not address the complexity of this program and the risks associated with same. Furthermore, it prevents us from selling loans in the secondary market that have no recourse at all and therefore pose no risk to the Credit Union. Therefore, we recommend a different approach to the section that measures the risk of first mortgages sold with limited recourse to the FHLB under the Mortgage Partnership Finance Program (MPF), under re-numbered section 702.104(b)(4).

Under the proposed structure, the capital requirement (after a credit conversion factor) is derived from the total outstanding principal balance of all loans sold under the MPF Program. However, it is important to note that the MPF Program is actually composed of several different types of loan purchase programs, some of which have a limited recourse component and some that do not.

For example, one of the MPF programs, called MPF Xtra, is actually a conduit for the sale of loans to FNMA through the MPF channel. These loans have no recourse back to the originating credit union and in that regard are similar to loans that a credit union would sell directly to FNMA. By including these loans in the RBC2 as well as loans sold under some MPF programs with limited recourse, the RBC2 over-calculates the risk of credit unions that make extensive use of the MPF Xtra conduit (and possibly other non-recourse MPF programs, including existing, proposed and future programs under the MPF umbrella).

We suggest an alternate approach that has the benefits of being much more precise in measuring risk, very simple to administer and can accommodate future changes in the MPF program without requiring a re-write of the rule.

Each loan sold under a MPF program that includes a credit-risk sharing component undergoes an FHLB calculation that assigns a specific dollar amount for credit enhancement to that loan. Some loans with very low credit risk may have no credit enhancement assigned, while other loans with characteristics of higher credit risk are assigned a higher credit enhancement. The total of these credit enhancement calculations is the maximum amount of risk for which a credit union is liable.

This total is tracked by the FHLB and reports are available online for any institution that participates in the MPF program. The loan-level calculations and the aggregating reports are useful management tools for institutions which want to manage the credit enhancement risk vis-a-vis the income that can be generated from a particular loan. In some cases, the results of the calculation for a particular loan may determine whether that loan is sold under the MPF Xtra program (with no credit enhancement) or under a different MPF program that includes some form of credit enhancement.

By lumping all MPF loans into one calculation, the proposed RBC2 rule significantly alters an institution's analysis of how to price and sell individual loans without any benefit to the institution or to the NCUA in managing risk. In fact, it is possible that the proposed rule will motivate some credit unions to take on greater risk.

For our institution, the total credit enhancement for which we are actually liable is less than 50% of the amount that would be required under the proposed RBC2, even after applying the proposed credit conversion and the risk weight.

Our recommended alternative to the proposal is that the credit conversion and risk weight be applied to the total credit enhancement under the MPF program for which a credit union is liable, instead of to the loan balances.

On behalf of our members, the Naveo Credit Union Board of Directors and management fully support the recommendations made by our national association CUNA and by our local association, The Cooperative Association of Credit Unions, as this recommendation will strengthen our Credit Union and the industry as a whole.

We appreciate the opportunity to comment on this particular issue and look forward to the implementation of these changes on behalf of all credit union members across the country.

Sincerely,

Rui F. Domingos
Chief Executive Officer