March 12, 2015

AMERICA'S CREDIT UNIONS

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

Risk-Based Capital, 80 FR 4340-01

Dear Mr. Poliquin:

As the Vice President of Finance at AmeriCU, a $1.3 billion credit union in Central New York, I have been closely analyzing NCUA's proposed enhanced Risk-Based Capital framework, which could have significant operational implications for the credit union. While NCUA's second proposal is significantly better than its original draft regulation, there is much more that NCUA can do to more effectively monitor Interest Rate Risk (IRR) and devise an effective RBC framework.

In this draft, NCUA is proposing a more complicated RBC framework. It is also considering using Guidance to address IRR and asks for input on how best to manage IRR. I believe that NCUA should expand the data it gathers in call reports and that it should use this information to facilitate both RBC compliance and IRR management. For example, to address IRR, the 5300 Call Report should be expanded to gather charge-off data for each loan category. The 5300 report should also be used to monitor Investment losses for credit unions that invest in complex securities. This historical data would show the direction a credit union is trending and provide regulators with an objective basis for determining which credit unions need capital buffers that exceed regulatory minimums. This approach would allow NCUA to concentrate on those credit unions with elevated interest rate exposure and provide guidance to credit unions unsure of the *circumstances under which NCUA may seek to impose enhanced capital buffer requirements.*

I am in favor of NCUA's proposal to raise the RBC compliance threshold to $100 million. A credit union of this size should be considered complex. However, if NCUA determines that a credit union should be considered complex based on the activities in which it engages, then I believe that a combination of the following activities should make a credit union of at least $100 million complex: participation loans, interest-only loans, indirect loans, real estate loans, non-agency mortgage-backed securities, non-mortgage-related securities with embedded options, collateralized mortgage obligations/real estate mortgage investment conduits, commercial mortgage-related securities, and derivatives.

NCUA continues to insist that it has the right to categorize credit unions as both adequately and well capitalized. Any mandate imposing capital a requirement on credit unions other than that they be adequately capitalized is, as NCUA board member Mark McWatters has suggested, of questionable legality. Federal law empowers NCUA to develop an enhanced capital framework for insured credit unions to be *adequately capitalized* 12 U.S.C.A. § 1790d (West). NCUA's requirement that complex credit unions strive to be well capitalized contradicts the plain language of this statute.

A properly designed RBC framework should be no more complex than is necessary to properly monitor credit union trends on both an aggregate and granular level. My proposals are designed to accomplish this goal in a way that maximizes the flexibility of well managed complex credit unions such as AmeriCU.

Sincerely,

Barth I. Eke
Vice President of Finance

AmeriCU
CREDIT UNION

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