March 24, 2015

Mr. Gerard Poliquin
Secretary to the NCUA Board
1775 Duke Street
Alexandria, VA 22314-3428

Re: Comments on NCUA Risk-Based Capital Proposed Rule

Dear Mr. Poliquin:

I am writing to you on behalf of Campus Federal Credit Union regarding the National Credit Union Administration's proposed rule governing risk-based capital. We appreciate the opportunity to provide comments on this important regulatory proposal and to express some of our concerns about the potential negative impact of the proposed rule on credit unions if it is finalized in its current form. If the rule were to be implemented as proposed, credit unions would find themselves at a significant disadvantage to banks. We ask that the NCUA Board withdraw the rule or alternatively make major modifications to the rule before it is finalized.

You will find some of our concerns with the rule detailed below:

CUSOs:

The 250 percent risk weighting assigned to CUSOs appears to be arbitrary and lacks sufficient empirical data to support the current assigned risk weighting. This risk weighting does not reflect the actual risk of investing in CUSOs. Varying degrees of risk exist among CUSOs; therefore, assigning a 250 percent risk weighting to all CUSOs is counter-productive to the collaborative risk mitigating model that many CUSOs represent as a net income resource for credit unions. Investments in CUSOs should be assigned a risk-weight of 100 percent. This risk weighting would more appropriately align with the risk weighting of loans to CUSOs and more accurately reflect the actual risk of investing in CUSOS.

Investments:

The proposed rule would unfairly penalize credit unions by using investment risk-weights to compensate for interest rate risk, which shows a bias towards lending and against investments. Also, the proposed rule does not factor in credit unions' interest rate exposure offsets such as variable rate assets or derivatives. Credit unions are already doing a good job of monitoring and controlling interest rate risk through their own policies and in accordance with NCUA examination and supervision. The NCUA should, like the FDIC, consider steps credit unions take to mitigate risk in its capital requirements.

Non-Delinquent First Mortgage Real Estate Loans:

The tiered weighting system for non-delinquent first mortgage real estate loans penalizes too many credit unions for loans that are not inherently risky. Again, the risk-weights appear to be arbitrary and do not take into consideration any factors that could indicate that the loans are more or less likely to default. As an alternative, the weighting system should more closely resemble the weighting system of the FDIC, where all non-delinquent first mortgage loans are weighted at 50 percent regardless of the concentration in the portfolio.

Member Business Loans (MBLs):

The proposed rule for the risk-weights for MBLs punishes credit unions for holding large concentrations of MBLs that are not necessarily risky. An individual business loan's risk does not change based on the number of other business loans the credit union is holding. Risks to the portfolios of credit unions should be managed through the examination and supervision process. Credit unions with proven minimal losses in their business loan portfolios should be given credit for their diversified portfolios and proven underwriting standards.

Goodwill:

Removing goodwill from the risk-based capital ratio numerator will negatively affect credit unions that have had recent mergers by failing to allow them to fully realize the previously accounted for benefit. Also, such an action will present a disincentive for healthy credit unions to become merger partners for troubled or failing credit unions which will ultimately lead to more expensive liquidations of the Share Insurance Fund.

Implementation:

The proposed implementation time period of 18 months is not nearly long enough for credit unions to make the necessary adjustments to comply with the proposed rule. Because the proposed rule has such broad impacts on all that credit unions do, it will take time to properly adjust credit unions' balance sheets and re-evaluate decision-making processes. Any implementation period should be at least three years from the passage of any final rule in order to give credit unions enough time to make the necessary changes to their operations.

Individual Minimum Capital Requirement:

This measure is highly subjective and provides no clear standards for implementation. A constantly moving set of rules makes it difficult for credit unions to make business decisions about their portfolios and adhere to standards laid out in the rule. The process of appealing individual minimum capital requirements lays a great deal of burden on the shoulders of individual credit unions to prove the NCUA action was not an appropriate exercise of action by the NCUA itself. Also, the legal authority that the NCUA has to carry out such a rule is questionable. The individual minimum capital requirement should be removed from any final rule.

Thank you very much for the opportunity to comment on this proposed regulation. The issues we have highlighted above will have a significant impact on the credit union industry and our ability to serve our members. As proposed, the rule has a one-size-fits-all approach and would serve to stifle growth and diversification at credit unions. We respectfully urge the NCUA to address some of the recommended improvements to the proposal contained herein.

Sincerely,

Jane G. Verret
Chief Administrative Officer
Campus Federal Credit Union