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June 26, 2014

The Honorable Debbie Matz, Chairman
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: NCUA Los Angeles, CA Listening Session

Dear Chairman Matz:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents federal credit unions, we appreciate the opportunity to participate in this NCUA listening session. We believe that a number of issues deserve the agency's immediate attention and have include them below.

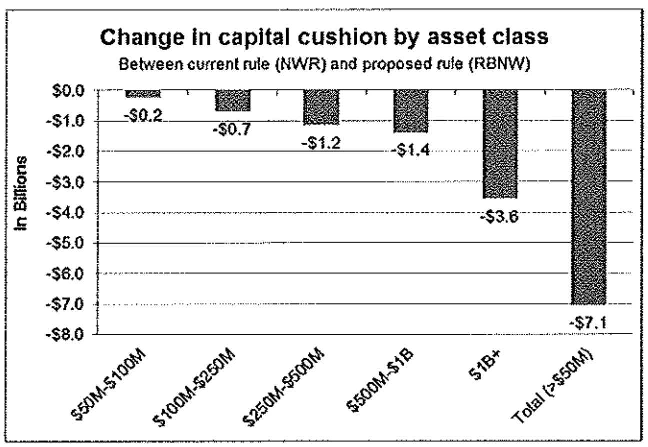
I. Risk-Based Capital

On January 23, 2014, the National Credit Union Administration released a proposed "risk-based" capital rule that makes great changes with respect to Prompt Corrective Act (PCA) including replacement of the agency's current risk-based net worth (RBNW) requirements with new requirements for federally insured credit unions over $50 million in assets. While NAFCU is supportive of a risk-based capital regime for credit unions, we do not believe that the NCUA proposal as it currently stands is appropriate. If it were to be implemented as proposed, credit unions could find themselves at a competitive disadvantage to banks. The proposed rule is one-size-fits-all and would serve to stifle growth, innovation and diversification at credit unions.

Regulatory Process
Given the recent comments from NCUA Board members regarding the significant changes that will be made to the rule before it is finalized, NAFCU believes that NCUA should re-issue the proposed rule with any changes made using the input received from the comment period and these listening sessions through a notice of proposed rulemaking. This would give credit unions an opportunity to see those significant changes and contribute comments. If NCUA intends the final rule to include as many changes as the NCUA Board members have indicated, then NCUA will need to re-issue a proposed rule with another public comment period as required by the Administrative Procedure Act.

Affected Credit Unions
NCUA has stated publicly that this proposed rule would only affect around 200 credit unions. That number is limited to those credit unions whose net worth classification will be downgraded. While there may only be around 200 credit unions whose net worth categories will be downgraded, there are many more credit unions that will be affected by this proposed rule.

NAFCU's Economics and Research department prepared the impact analysis graph found below that outlines the impact the proposal would have on credit unions based on asset size. Our analysis of the proposed rule determined that credit unions with more than $50 million in assets will have to hold $7.1 billion more in additional reserves to achieve the same currently maintained capital cushion. Because credit unions cannot raise capital from the open market like other financial institutions, this cost will undoubtedly be passed on to the 97 million credit union members across the country in the form of higher loan rates and lower rates on share accounts.



Risk-Weighting
The proposed rule revises the risk-weights for many of NCUA's current asset classifications and requires higher minimum levels of capital for credit unions that are perceived as having more risky portfolios. NAFCU and its member credit unions have identified several key areas where risk-weighting in the proposal does not accurately capture the risks associated with the asset in question. In particular, a number of the NCUA proposed risk weights that are higher than the FDIC and Basel III requirements for community banks – often without solid justification as to why.

NCUA should eliminate the interest-rate and concentration risk components of the risk-weighting for non-delinquent first mortgage real estate loans, other real estate secured loans, member business loans (MBLs), and investments. In order to comply with the comparability mandate of The FCU Act, NCUA should lower risk-weights to compare with FDIC weights.

Individual Minimum Capital Requirements
NAFCU believes there are serious concerns regarding the legal authority of NCUA to enact this portion of the proposed rule.

In addition to potential legal issues, this portion of the proposal seems to undermine the stated purpose of the rule. On the one hand, credit unions are led to believe that the proposal is designed to factor in a number of different risks including interest rate and concentration risk. On the other hand, if the risk-based capital ratios laid out in the proposal do not result in the numbers NCUA examiners would like to see, NCUA can change the rules for an individual credit union. This makes it nearly impossible for a credit union to make a sound business decision concerning its portfolio makeup, leading to even more uncertainty for credit unions and credit union members.

Implementation Period

NAFCU believes that the proposed 18-month implementation timetable is not long enough for a rule as complex and impactful as this proposed rule. The proposed revisions to net-worth and capital requirements will vastly affect a credit union's decision making and it will take time for a credit union to adjust its balance sheets related to this new regulation.

Any implementation period should be no less than three years after passage of any final rule. Credit unions will need at least that long to make safe and sound decisions about potentially fundamental changes to core business decisions including investments and product offerings.

Minimum Capital Requirement – 10.5% v. 8%

NCUA failed to include any rationale or data for why it chose to have a 10.5 percent minimum capital requirement to be well capitalized other than to "avoid the complexity of implementing a capital conservation buffer" such as the one that FDIC uses.

This ratio will make credit unions less competitive than their banking counterparts. NCUA should remove the 2.5 percent capital buffer component of the minimum risk-based capital ratios and make capital categories mirror the FDIC Tier 1 capital requirements of 8 percent.

Legislative Solution

NCUA needs to work with congress to change PCA requirements to develop a fair and balanced risk-based capital system for credit unions. The system should allow for less capital for lower-risk credit unions and more capital for higher-risk credit unions. NAFCU continues to believe that we need Congress to make statutory changes to the FCU Act to achieve a fair system.

II. Interest Rate Risk

NCUA has indicated that interest rate risk remains a regulatory concern and NCUA will potentially address interest rate risk rules later this year.

Credit unions must already follow stringent interest-rate risk-management policies and NCUA has provided a large amount of guidance on the issue. NAFCU believes that proper interest rate risk management is important, but opposes unnecessary regulatory action.

NAFCU encourages the NCUA to include stakeholders in any discussions on IRR prior to issuing any new regulation.

III. Exams

Credit unions now face more examiner scrutiny than ever, as the examination cycles for credit unions have gone from 18 months to 12 months since the onset of the financial crisis even though credit union financial conditions continue to improve. Additional exams mean additional staff time and resources to prepare and respond to examiner needs.

NAFCU has concerns about the continued use of Documents of Resolution (DOR) when they are not necessary or are used in place of open and honest conversations about examiner concerns. According to the most recent NAFCU "Economic & CU Monitor", nearly 40% of credit unions who received DORs during their last exam felt it was unjustified and nearly 15% of credit unions said their examiners appeared less competent than in the past. NAFCU supports effective exams that are focused on safety and soundness and flow out of clear regulatory directives.

IV. Securitization

While NAFCU is still reviewing the proposed rule and will be submitting separate comments, NAFCU welcomes NCUA's attempt to give credit unions additional tools to better serve their members.

This proposed rule is in line with NAFCU's "Dirty Dozen" list of regulations to eliminate or amend, in order to make regulations clearer and less burdensome. We look forward to continuing to work with NCUA to address ways that the agency could streamline and refine existing regulations to better support credit unions and their members.

V. Appraisals

NAFCU is still reviewing the proposed rule and intends to issue separate comments through the appropriate channels. However, NAFCU has supported these changes as part of our "Dirty Dozen" list of regulations to eliminate or amend and urged for them through our comments to the NCUA Board during its 2013 Regulatory Review, as well as its recent interagency proposed appraisal rulemaking. NAFCU applauds NCUA's effort to eliminate redundant requirements for providing copies of appraisals upon request, as well as its efforts to expand the exemption for not having to obtain an appraisal in connection with a mortgage refinancing under certain circumstances.

VI. Associational Common Bond

NAFCU is still evaluating NCUA's proposed rule on associational common bonds and intends to provide separate comments raising additional issues and concerns with aspects of this proposal. However, NAFCU would like to express our appreciation for NCUA's work to propose changes to its chartering and field of membership regulations. Over the

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VI. Associational Common Bond

NAFCU is still evaluating NCUA's proposed rule on associational common bonds and intends to provide separate comments raising additional issues and concerns with aspects of this proposal. However, NAFCU would like to express our appreciation for NCUA's work to propose changes to its chartering and field of membership regulations. Over the past several years, NAFCU has requested that NCUA improve the process for expanding a federal credit union's field of membership. The proposed rule constitutes an important step to achieving the goal of improved field of membership rules.

NAFCU has always supported the ability of federal credit unions to add associations to their field of memberships within the purview of the Federal Credit Union Act (FCU Act). NAFCU encourages any legally-supported avenue of expanding a federal credit union's field of membership, including through associational common bonds.

VII. Budget Transparency

As the agency charged by Congress to regulate, charter, and supervise federal credit unions, NCUA oversees and manages the National Credit Union Share Insurance Fund (NCUSIF), the Temporary Corporate Credit Union Stabilization Fund (TCCUSIF), the Central Liquidity Fund (CLF), and its annual operating budget. These funds are comprised of monies paid by credit unions. NCUA is charged with protecting these funds and using its operating budget to advance the safety and soundness of credit unions.

Because these funds are fully supported by credit union assets, credit unions are entitled to know how each fund is being managed. Currently, NCUA publicly releases general financial statements and aggregated balance sheets for each fund. However, the agency does not provide non-aggregated breakdowns of the components that go into the expenditures from the funds. Although NCUA releases a plethora of public information on the general financial condition of the funds, NAFCU urges the agency to fully disclose the amounts disbursed and allocated for each fund.

Thank you for your continued commitment to listen to feedback. Should you have any questions or would like to discuss these issues further, please feel free to contact me at mcoleman@nafcu.org or (703) 842-2244.

Sincerely,

Michael J Coleman

Michael Coleman
Director of Regulatory Affairs