FIRST CLASS AMERICAN
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May 15, 2014

Gerard Poliquin, Secretary of the Board

National Credit Union Administration

1775 Duke Street

Alexandria, VA. 22713-3428

RE: Comments on Proposed Rule: PCA - Risk-Based Capital; RIN 3133-AD77

Dear Secretary Poliquin:

Thank you for allowing First Class American Credit Union to respond and comment on the proposed regulation concerning risk based capital. Please consider our comments in the construction and final rule regarding risk based capital.

First Class American Credit Union is a $46 million credit union located in Fort Worth, Texas. We are currently celebrating our 85th year having been chartered in 1929 serving predominately postal employees in Tarrant County and north Texas. While we currently would not fall under the rules proposed in Risk Based Capital, our current growth indicates we would fall in the over $50 million asset category.

We believe that there are several areas of concern throughout this bill that have the potential to harm credit unions and stop our ability to grow and serve our membership.

The current proposal includes measures for credit unions that exceed Basel III standards for banks less than $15 billion in assets. For instance, FHA insured guaranteed residential mortgages are assigned a 20% risk weight compared to 0% risk rate for Basel standards.

For member business loans greater than 15% of assets the current proposal assigns a 200% risk weight compared to 100% assigned by Basel standards.

The current proposal includes an inconsistent concentration level of credit and interest rate risks by using a risk-based model that does not take into consideration the credit quality and

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guarantees of the underlying assets. All security investments are assigned a risk weight percentage based on maturities only. The multiple loan categories utlizie a simplistic delinquent/non-delinquent approach. Additional risk management tools and methods designed to appropriately assign risk should be considered.

Under your proposed rule (page 11203), NCUA has the authority on a case-by-case basis to increase the amount of capital a CU is required to maintain. In other words, even if a CU is in compliance with the rules, NCUA could arbitrarily impose higher capital requirements if it disagreed with the growth or concentration a credit union had in long term investments or member business lending simply because of the numbers with disregard with the credit risk from those investments, mortgages, or member business loans.

In the proposal the compliance deadline is 18 months. Basel III requirements for banks is until 2019. This is an unreasonable period. This would cause a "flood" in the market if credit unions were forced to sell their investments in 18 months driving the sell price of the investments to decline, causing needless losses simply because NCUA has imposed an unreasonable time frame to shit a credit union's asset distribution.

Additionally, the changes in reporting via the CALL Report for these new requirements cause greater regulatory burden as our time to complete the CALL Report increases, the tracking is complicated. This would involve many more staff hours.

Thank you for listening and considering our concerns.

Sincerely,

Lloyd A. Johnson

Lloyd Johnson, Treasurer

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In the proposal, NCUA states that the reasons for the changes are to bring the credit union method of determining capital and capital requirements closer in line with the Basel III used by banks for capital measurement. Basel III is focused on credit risk. However, the RBC proposal covers not only credit risk, but also interest-rate risk, concentration risk, liquidity risk, operational risk, and market risk. This requirement is much harsher than the rules FDCI requires for banks. While I understand that NCUA is trying to develop a RBC rule with more parity as compared to the FDIC rule concerning PCA, the NCUA proposal does not address the difference in the ability between a credit union to raise capital and a bank to raise capital. Credit union's do not have the ability to raise additional capital the way a bank does.

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Sincerely,

Edward Duris

Edward Duris, Chairman

First Class American Credit Union

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• NCUA would assume additional authority to impose even higher capital requirements (after the initial capital regimen is implemented) on individual credit unions that could exceed even well-capitalized level requirements;

-NCUA could change the capital requirements from the time. This creates an unacceptable level of uncertainty for CUs to make long term business decisions.

• NCUA would also require the National Credit Union Share Insurance Fund 1% deposit to be ignored in the risk-based capital calculation;

• More time in needed for capital to be raised by CUs when the rule triggers a threshold. Moreover CUs need a reliable resort to raising capital whether from retained earnings or a secondary capital source. Note that secondary capital powers currently are not available to us. NCUA should consider using a 36 month pro rata phase period when a CU is required to meet capital requirements at the lower echelons. This time easement is vital to making this proposed rule workable.

• A number of the risk weightings, especially for member business loan and mortgage concentrations as well as for CUSO investments, do not appear to be properly calibrated for credit unions. Using higher risk weights on long-term assets to deal with interest-rate risk is misleading without considering liability maturities.

In the proposal the compliance deadline is 18 months. Basel III requirements for banks is until 2019. This is an unreasonable period. This would cause a "flood" in the market if credit unions were forced to sell their investments in 18 months driving the sell price of the investments to decline, causing needless losses simply because NCUA has imposed an unreasonable time frame to shit a credit union's asset distribution.

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Sincerely,

Christi J Fite

Christi Fite, Board Member

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We believe that there are several areas of concern throughout this bill that have the potential to harm credit unions and stop our ability to grow and serve our membership.

As for the proposed rule, we will address a variety of areas.

NCUSIF Deposit

(1) Deducting the NCUSIF Capitalization Deposit from the risk-based capital calculation is not consistent with showing that the NCUSIF Capitalization Deposit has value. Subtracting the NCUSIF Capitalization Deposit from both the capital and risk weighted asset totals is equivalent to writing off the deposit. We are concerned that it becomes more difficult to prove the asset has future economic value when it has no value in the regulatory capital ratio calculation.

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Risk Weighting

(2) The risk-weight for cash on deposit at the Federal Reserve Bank should be 0%. Since the Federal Reserve is one of the NCUA designated sources for emergency liquidity, its safety and soundness should be similar to that of the government agencies.

(3) For securities, the 0% risk-weight for Treasuries and GNMA MBS, regardless of the weighted-average life, ignores any interest rate risk and is lower than the 20% risk-weight for cash on deposit at the Federal Reserve Bank.

(4) The 1,250% risk-weight category for an asset-backed investment for which the credit union is unable to demonstrate a comprehensive understanding of the features implies a loss greater than 100% of the principal.

(5) Share secured loans have a risk-weight of 75%, but since we have access to the collateral, these loans should have a risk-weight of 0% or 20%.

(6) Applying a 250% risk weight to an investment in a CUSO may result in the unintended consequence of restricting credit union investments in CUSOs due to the punitive risk weighting. Additionally, many CUSOs are highly successful and owners of those CUSOs will be penalized for growing investments in profitable CUSO entities. At a minimum, there should be a lower tiered risk weighting depending on success and longevity of a CUSO.

(7) The risk-weights assigned to member business loans are too severe, given the restriction on the percentage of members business loans compared to assets. As with the CUSO comments above, we feel the MBL restrictions could have the unintended consequence of restricting growth in this asset class.

(8) We believe that increased risk-based capital requirements for higher concentrations of residential mortgage loans are too high, and exceed the capital requirements specified in for small banks in Basel III. For example, residential mortgage loans that exceed 35% of assets have a risk-weight of 100% in the NCUA proposal versus 50% in Basel III. A number of factors (type of loan, LTV, debt-to income, etc.) influence the risk of a loan, and a broad brush approach to risk-weighting mortgages seems short sighted.

(9) It would be beneficial for credit unions to understand the statistical data that is used to support the increased risk-weights for the asset concentration percentages.

Expanded Information to Enhance Risk Weightings

(10) Changes to the information required in the call report could be needed in order to properly assign risk-weights. For example, it might be necessary to report loan-to-value information in order to assign risk-weights to mortgage loans. In the current proposal, 50% and 150% LTV mortgages have the same risk-weight.

Mortgage Servicing Rights

(11) We feel that the risk weighting for mortgage servicing rights is too high because the interest rate risk benefit for rising rates from mortgage servicing rights is not given any credit. When interest rates increase, the value of mortgage servicing rights increases, which offsets some of the interest rate risk from the balance sheet. Regardless of the accounting treatment (Lower of Cost or Market vs. Market Value), the interest rate risk modeling should recognize the change in market value for the mortgage servicing rights.

Allowance for Loan Loss Limitation

(12) We disagree with the proposed rule limiting the allowance for loan losses in the numerator calculation to no more than 1.25% of risk assets. The ceiling seems arbitrary at best, and given likely accounting rule changes in estimating the allowance, credit unions will be unfairly penalized.

Examiner Subjectivity

(13) The ability for examiners to require higher capital amounts for individual credit unions is not justified. The capital rule should be uniform for all credit unions.

Longer Average Life Liabilities Benefit

(14) Although the longer weighted average life of assets gets a higher risk-weight, having longer average life liabilities does not get any reduction in the risk based capital calculation.

Interest Rate Risk Benefits from Derivatives

(15) For derivatives, only the counterparty risk is used in the risk based capital calculations but there is no benefit for reducing the corresponding interest rate risk.

Again, we believe the timing is appropriate for industry dialogue to address risk based capital, however the rule as proposed falls short for the practitioners who have to apply it. in 18-24 months.

In the proposal the compliance deadline is 18 months. Basel III requirements for banks is until 2019. This is an unreasonable period. This would cause a "flood" in the market if credit unions were forced to sell their investments in 18 months driving the sell price of the investments to decline, causing needless losses simply because NCUA has imposed an unreasonable time frame to shit a credit union's asset distribution.

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Sincerely,

Anthony Sanchez

Anthony Sanchez, Vice-Chairman

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The proposal as it stands will affect First Class American CU as follows:

1. FCACU would remain well capitalized but it's capital cushion would shrink by $144,823.
2. FCACU now has a cushion over well capitalized by 157 basis points on total assets. Under the proposal the cushion over well capitalized would decline by 33 basis points to 124 basis points on total assets.
3. FCACU ROA for 2013 was 53 basis points. Under the proposal our ROA would decline by 22 basis points.

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Kelly D. Ingersoll Board Member

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