



May 26, 2014

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

Sent via e-mail to: regcomments@ncua.gov

RE: AAFES Federal Credit Union Comments on Proposed Rule:
PCA – Risk-Based Capital (RBC)

Dear Mr. Poliquin:

This letter represents the views of AAFES Federal Credit Union regarding NCUA's proposal on PCA –Risk-Based Capital. AAFES Federal Credit Union is located in Dallas, Texas and serves the employees of the Army Air Force Exchange Service (the "Exchange") as well as Dart Container Plant in Dallas, Texas. We have 6,800+ members and \$91M in assets. AAFES Federal Credit Union appreciates the opportunity to comment on this very important issue. The proposal raises several concerns that we feel must be addressed before the Board adopts the rule in final form.

Of particular concern to AAFES Federal Credit Union are the following elements of the proposal:

- 1) Impact on the Credit Union and its membership;
- 2) Risk weights are not justified (Sec. 702.104, See Table 6, page 11194)
- 3) Subjective determination of higher capital amounts (Sec. 702.105, See page 11203);
- 4) Definition of "complex" credit unions (Sec 702.103, See page 11192);and
- 5) Extend compliance date (See page 11208).

Impact on the Credit Union and its Membership.

Compared to the risk-based net worth (RBNW) requirement, the RBC proposal will increase the risk weight for:

- a) Investments with maturities exceeding five years;
- b) Member Business Loans;
- c) Consumer Loans;
- d) CUSO Investments; and
- e) The NCUSIF deposit.

The RBC proposal as it is currently written will discourage credit unions from making these types of loans and investments, which is a disservice to our members. The proposal includes a description of the impact that the Board believes the rule would have on credit unions. It reflects that 10 credit unions would become undercapitalized as a result of this proposal and would be required to retain \$63M in risk-based capital in order to be considered adequately capitalized. Industry representatives estimate that the collective impact under this proposal on all credit unions could be as high as \$7B. Because of our limited avenues for raising capital, it is likely this proposal would force us to charge higher lending and financial services fees, reduce dividend payments to members and deter new products and services.

In preparing the final rule, we ask that NCUA consider the economic impact and consequences of reduced liquidity and financing for families.

Risk Weights Are Not Justified (Sec. 702.104, See Table 6, page 11194)

We would appreciate further explanation of the Board's perspective on how the proposed concentration-based risk-weights were determined and why they differ so greatly from bank assessment of risk-weights. As written, the weightings are considerably higher than the Basel system prescribed for banks. The reevaluation of certain asset weighting could change a credit union's PCA without any reasoned justification and thereby hinder credit union lending to homeowners and small businesses as well as deplete resources for product development.

In addition, the weighting is the same for all loans and investments in that category. For example, all CUSO investments are treated the same regardless of the type of CUSO and its record of performance.

Subjective Determination of Higher Capital Amounts (Sec. 702.105, See page 11203)

Under the proposal, NCUA has the authority on a case-by-case basis to increase the amount of capital a credit union is required to maintain. In other words, even if a credit union is in compliance with the rules, NCUA could require more capital. Such power is not justified and quite troubling.

While the proposal does lay out an appeal process, the process itself lays a great deal of burden on the shoulders of individual credit unions to prove the NCUA action was not an appropriate exercise of discretion by NCUA. The process also requires credit unions to appeal to the same NCUA Board that made the judgment in the first place. While the proposed rule allows credit unions to seek the opinion the NCUA's Ombudsman, the NCUA Board is not bound by or required to give deference to the Ombudsman's recommendations. An independent appeals process where the ultimate deciding body is not the same NCUA Board that made the decision in the first place is a more fair structure for credit unions.

Definition of "Complex" Credit Unions (Sec 702.103, See page 11192)

This is probably one of the major concerns we have with regard to the proposal. The proposal defines a "complex" credit union as **ANY** credit union with assets over \$50 million. To be considered a complex credit union under the current rule, a credit union needs only be over \$50 million **AND** have a risk-based net worth over 6%.

NCUA has provided no justification for expanding the definition of "complex" credit unions and should note that size does not make a credit union complex. In this narrow definition, NCUA may be overlooking smaller credit unions that pose a higher risk to the insurance fund while implementing new burdens on credit unions over \$50 million who are of little risk to the insurance fund.

Extend Compliance Date (See page 11208)

NCUA should recognize that credit unions need at least three years to comply with the rule once the rule is finalized; eighteen months is just not sufficient time. Furthermore, Basel III allows banks until 2019 to comply.

At the very least, submission of the call report will be significantly slower, more costly and more complicated due to the amount of new information to be provided. Gathering such information will require changes by data processors, additional staff time, staff training, etc. – all of which will cost the credit union money and decrease the time and resources the credit union provides back to its members. NCUA estimates the rule will create an additional 162 hours annually – that's three to four weeks of work for a full-time employee, provided that NCUA has not underestimated the work involved.

In closing we would like to thank you for the opportunity to comment on this proposed rule and for considering our views on the proposed risk-based capital requirements.

Sincerely,

Cheryl Gibson

President/CEO
AAFES Federal Credit Union

Cc: Suzanne Yashewski
SVP Regulatory Compliance Counsel
Cornerstone Credit Union League
syashewski@cornerstoneleague.coop

F.C. Sanchez
Chairman of the Board of Directors
AAFES Federal Credit Union
fsanchez_afcu@sbcglobal.net