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Alabama River CREDIT UNION

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May 23, 2014
Mr. Gerald Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Va. 22314-3428

Re: Risk Based Capital Proposal

Dear Mr. Poliquin:

I am writing on behalf of Alabama River Credit Union. We serve over 1877 members and have $ 16,081,350 in assets. Our Credit Union appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action – Risk Based Capital.

The need for credit unions to be strong financially has our full support. However, since credit unions build capital the old fashioned way (we retain a dollar that is earned at a time) this proposed rule could severely limit the ability of credit unions to take advantage to grow, increase the products and services we could provide to our members, and help our local communities prosper.

It is already difficult in today's economy to retain any operating net income as a result of increasing Health Care Benefits, Operating Expenses, reduced loan interest income to remain competitive, reduced ROA due to lower investment income and regulatory requirements such as UBIT and adhering to the Annual NCUA Corporate Stabilization Expense. We, as small credit unions already feel that our hard earned Net Income is diminished in some shape or form before we can reflect it on our books.

In fact, we believe the proposal could actually serve to weaken our industry in the future because as we grow slower, we will not be able to innovate as fast as our competitors and we will become less relevant in the consumer market place. An unintended consequence of this proposal is that could actually serve to weaken the strength of our insurance fund not strengthen it.

Additionally, because of the potential impact of this proposal could have on our balance sheets 10 years down the road, the NCUA should have heeded the request from CUNA and other trade organizations to extend the comment period. All the credit unions executives I know are busy trying to run our credit unions as successfully as we can. It took several weeks/months before the full negative impact of this proposal became clear.

Some of our concerns include:

The NCUA would have authority to impose additional capital on a case by case basis. While NCUA has verbally stated that such action would require NCUA Board intervention, however the proposal as drafted would not preclude examiners from requiring additional capital.

With the exception of consumer loans, the risk weights as proposed do not reflect the fact that historically, the risks for credit unions are lower than those of small banks. In addition, the risk weights of residential mortgage loans and small business loans are more advantageous for small banks than for credit unions. The difference is clearly seen in the table below.

Comparing Small Bank Basel and the NCUA Risk Based Capital Proposal		
Aspect	**Small Bank Basel Risk Weights**	**NCUA RBC Proposed Rule Risk Weights**
Residential Mortgage Loans	50% (regardless of concentration)	50% (0% - 25% of assets) 75% (25% - 35% of assets) 100% (35% and above of assets)
Small Business Loans	100% (regardless of concentration)	100% (0% - 15% of assets) 150% (15% - 25% of assets) 200% (25% and above of assets)

The proposal's risk weightings on mortgages and business loans would have a negative effect in rural and low-income areas as a number of credit unions in those areas have higher concentrations in agricultural and business lending. They are either exempt from the member business loan cap or they are a low-income designated credit union.

The proposed rule would only allow 18 months for credit unions to comply. Banks will have up to 9 years to comply with Basel III. If credit unions were given the same 9 years that smaller banks are being given, this requirement would go into effect in 2023 (two years after the corporate stabilization program has ended). And, according to the latest estimates from Black Rock, the corporate stabilization program has both ends of their estimates negative. If these estimates continue in the negative, not only will the NCUA not be charging credit unions any additional money for the corporate stabilization fund, it is likely that the NCUA will be refunding money to credit unions in 2021 when the stabilization program is over.

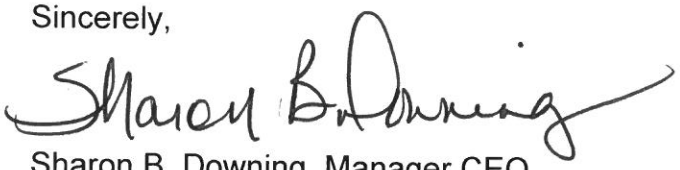
We believe using the estimated average life of securities, based on maturity buckets as a means for determining the risk of an investment portfolio should be

reconsidered. Longer term, adjustable and amortizing securities carry far less risk than non-amortizing, fixed rate issues. That picture may not be fully recognized by merely comparing the maturities of the two issues.

And finally, what is the need for this change now? Credit unions have survived the worst economic time in our history. Most credit unions are showing positive net income and rebuilding their net worth. Why is such a drastic change really needed? It would be far simpler and achieve similar results by increasing the well capitalized threshold to eight percent.

Thank you for the opportunity to comment on this proposed rule and for considering our views on risk based capital requirements.

Sincerely,



Sharon B. Downing, Manager CEO
Alabama River Credit Union

CC Jeff Sessions, U.S. Senator
Richard Shelby, U.S. Senator
Bradley Byrne, U.S. Representative

LSCU