



Qside

Federal Credit Union

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May 27, 2014

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

Re: Proposed Rule: PCA – Risk-Based Capital
RIN 3133-AD77

Mr. Poliquin and Members of the Board:

Qside FCU appreciates the opportunity to comment on the NCUA's proposed rule to modify the Prompt Corrective Action – Risked-Based Capital Rule. Our credit union, a federally-chartered credit union with current assets just under \$50 million, though excluded from the proposal, feel strongly that the rule will impact us both in the near future when we strategically reach that asset level, and in the immediate as it appears that the calculations will be made for all credit unions and the regulations, as written, authorize NCUA to impose additional capital on a case-by-case basis. Therefore, with the immediacy of this proposed rule evident, on behalf of our board of directors, I have prepared the following comments to which we hope the Agency will significantly modify the proposed rule:

The proposed rule violates the Federal Credit Union Act in a significant manner.

- 1. The Act requires NCUA to establish a risk-based Net Worth system to address material risks for which the net worth ratio (Tier 1 Capital) at the Adequately Capitalized level may not provide adequate protection.**

The emphasis here is "Adequately Capitalized", meaning that establishing a risk-based Net Worth for the "Well-Capitalized" credit unions in excess of that level established for the "Adequately Capitalized" is not allowed, and in fact was never intended by Congress. I refer you to a comment letter submitted to you, May 7, 2014, by the Honorable Alphonse M. D'Amato, a Senator at the time, from our great State of New York, to which he speaks of the PCA Risk-Based Capital when it was amended to the Federal Credit Union Act. Thus, to the extent that additional risk-based capital is required of adequately capitalized credit unions, 8% in your proposal, then 8% should be the risk-based requirement for well-capitalized credit unions.

2. **NCUA, under the Act, must consider the unique structure of credit unions, the fact that credit unions by their nature accumulate capital solely by earnings, and cannot go into the capital markets to boost capital.**

This, in our opinion, is perhaps the most egregious portion of the proposed rule, in that for each additional dollar of capital required, estimated by CUNA to total \$7 billion, is a dollar of earnings, past or future. Each dollar is also, as designed, an unnecessary additional level of capital, as our standards for "adequately capitalized" in the credit union industry (6%) is higher than the standards for "well-capitalized" in the banking industry (5%). By its original design, the PCA Risk-Based Capital rule "built in" an additional layer of capital requirements for credit unions. It is of our opinion that NCUA should carefully consider each additional level of risk-based capital proposed according to the effect on earnings it will produce. We believe that NCUA has not properly considered this effect, and in some cases has proposed rather punitive risk assignments.

3. **The Agency, under the Act, has been instructed to prescribe a system for prompt corrective action that is comparable to the system prescribed for other depository institutions under 12 U.S.C {1831o.**

The Agency, has assigned risk weightings in the following areas that are in excess of other depository institutions: First Mortgages > 25% Assets; Junior Liens >10% Assets; Member Business Loans > 15% Assets; Investments > 3 Years; NCUSIF; Secured Delinquent Loans; Mortgage Servicing Assets.

The Agency also requires credit unions to comply with the new proposal within 18 months compared to banks which will have 9 years to fully implement Basel III.

In conclusion, it is our belief that the Agency has overstepped in its attempts to modify the PCA Risk-Based Capital rules. We understand the environment in which these proposals were initiated after the recent economic downturn that had a seismic effect on our nation's economy. However, we also fully understand the difficulty that credit unions face in building capital. Our choices are limited, and in the end the likelihood of meeting even higher capital requirements will result in discontinuing products and services offered or increasing the costs of those products to our members. These are not desirable, nor should they be necessary choices to make. The ruling as proposed, if unaltered, will have consequences that we believe the Agency did not intend. It is with this honest opinion that we plead with the Agency to reconsider and to make changes to its current proposal.

With all due respect,



Mark Johnson, CEO
On behalf of the Board of Directors
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