FIRST CREDIT UNION

25 S. Arizona Place, Ste. 111
Chandler, AZ 85225

(480) 831.2645 LOCAL
(800) 732.6986 TOLL-FREE

firstcu.net WEB

May 20, 2014

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

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

Dear NCUA Board,

We share our comments below on the proposed risk-based capital rule. We appreciate the opportunity to comment on this critical proposed rule.

We believe the current capital measurement using the net worth ratio has proven to be far more valuable than a risk-based capital standard. Credit unions, under the currently-existing standards, fared much better through the recent great recession than did banks with a lower leverage capital standard and a risk-based capital standard. We recommend that the NCUA pull back from further consideration the proposed risk-based capital rule and move forward with the standard that got us through the great recession with relatively minimal losses.

If NCUA is compelled to move forward with the proposed risk-based capital measurement, it could be more meaningful and workable for both credit unions and NCUA with some reasonable modifications to the proposed rule.

From an overall viewpoint, the impact of the proposed rule, as it currently stands, will require credit unions to hold more capital than other federally insured financial institutions with similar risk profiles and therefore will place credit unions at a competitive disadvantage in the marketplace.

Asset Risk Weights – Where there are differences in asset risk weights, those proposed by NCUA are more punitive and require more capital than those of other financial institutions in almost every case except for nondelinquent consumer loans. This requires more capital for credit unions, puts us at a competitive disadvantage, and makes the risk-based capital calculation under the proposed rule not comparable to other financial institutions. <u>These should be aligned to more closely match the Basel/bank risk weights</u>. Most egregious are risk weights for investments, residential mortgage and MBL concentrations, investments in CUSOs, mortgage servicing assets, unfunded commercial loan commitments, and balances held at the Federal Reserve Banks.

NCUSIF Deposit – The NCUSIF deposit should not be a deduction from the risk-based capital numerator. The deposit is truly is a buffer against losses to the remainder of the NCUSIF and can be specifically attributable to the failed credit union, it is under NCUA's control, and it is supplementary to the capital available on a credit union's books in case of a failure. A great irony here, especially if NCUA is truly looking for comparability with banks in this proposed rule, is if a credit union were to change to a bank charter, it would receive its NCUSIF deposit back and this would immediately boost the institution's risk-based capital numerator and ratio under the bank/Basel calculation.

Individual Minimum Capital Ratios – This should be eliminated from the final rule. Discretionary judgment based on subjective assumptions will lead to inconsistent and unfair treatment. This is not good policy. Imagine a tax agent that had the authority to increase a taxpayer's tax amount due even though the taxpayer followed the rules with exactness. This rule would increase tension and mistrust between the regulator and the regulated.

Comprehensive Understanding of Asset-Backed Investments – This proposed rule is unclear and will lead more inconsistent and unfair treatment as well as increased mistrust similar to the Individual Minimum Capital Ratio rule. The prescribed penalty of 1,250% is punitive to the extreme.

Effective Date – The proposed effective date of 18 months following final adoption is far too short of a time period to revise strategic direction, adjust mix of assets, and/or increase capital. A transition period of 3-5 years would be much more realistic.

ALLL Inclusion in Risk-Based Capital Numerator at 1.25% - NCUA should be prepared to increase the amount of Allowance for loan losses ("ALLL") permitted in the risk-based capital numerator if FASB issues a final rule that requires higher levels of ALLL. The increase should be comparable in relation to the increase to normal levels of ALLL held by credit unions.

Seat at the Table – We believe it would benefit both sides for NCUA to offer seats at the drafting table to some personnel knowledgeable in this topic from inside the credit union industry to have positive input, interaction, and discussion when developing the final rule.

Thank you for taking our comments into consideration as a united voice, it is truly appreciated.

Respectfully submitted,

Jay Curtis, CPA, CGMA, CCE
President and CEO
First Credit Union