



May 19, 2014

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

Re: Risk-Based Capital Proposal

Dear Mr. Poliquin:

On behalf of the Board of Directors of Affinity Plus, and in representation of the 180,000 members we serve, please accept this letter as our response to the National Credit Union Administration's (NCUA) proposed Risk-Based Capital Rule (The Rule).

Affinity Plus is one of the 189 credit unions that would experience a decline in the PCA classification from "Well Capitalized" to "Adequately Capitalized" should The Rule be enacted as proposed. To maintain our current surplus over the established "Well Capitalized" standard, as it is applied today, would require Affinity Plus to either increase capital \$18.9 million, through imposing higher rates and additional fees, or reduce loans by \$171 million; neither of which are congruent with our mission to put people first.

Nevertheless, The Rule does represent progress toward the improvement of the current overly simplistic net worth ratio through its objective to require a higher capital allocation for activities deemed higher-risk.

Specifically concerning The Rule as proposed, Affinity Plus maintains the following observations and concerns:

- 1) The Rule does not account for critical risk mitigating actions, such as the *Liability* component of the ALM concept.

175 West Lafayette Road  
St. Paul, MN 55107  
Phone (651) 291-3700  
Fax (651) 312-6252  
[www.affinityplus.org](http://www.affinityplus.org)



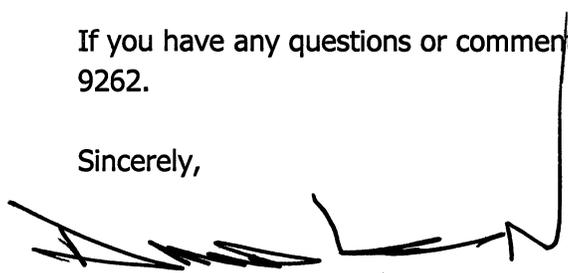
- 2) The 12-18 month implementation period does not provide sufficient time to adjust a balance sheet to offset the impact of The Rule.  
Additional time would provide for a more structured and seamless implementation with the least amount of disruption to our members and the industry as a whole.
- 3) As proposed, The Rule does not differentiate between secured and unsecured consumer loans. Rather The Rule assigns the same risk-weight to an auto loan and an unsecured credit card. It is certainly evident from a credit perspective that car loans carry a lower risk of loss, but still both are assigned the same weight.
- 4) Home equity loans carry the highest risk-weight of all consumer loans, the same weight given to a delinquent primary lien mortgage and a higher weight than an unsecured loan. The Rule fails to account for offsetting risk characteristics, such as credit history, loan terms, interest rate or the combined loan-to-value of the mortgage. The risk-weights as proposed will significantly impact our ability to offer home equity loans to our members.
- 5) CUSO investments are risk-weighted higher than delinquent loans and carry the highest risk-weight of any asset class. CUSOs provide a significant opportunity for a credit union to serve its members and diversify its income. The risk-weight applied seems excessive, without fully accounting for any other considerations.
- 6) The Rule assigns a higher risk-weight to an overnight deposit with the Federal Reserve than to a 30-year US Treasury security. Overnight deposits held with the Federal Reserve should be provided the same 0% risk-weight as a Treasury security.
- 7) As proposed, The Rule lacks clarity on the treatment of US Agency debt, specifically that of Ginnie Mae and SBA. Ginnie Mae and SBA are unconditionally guaranteed by the full faith and credit of the US Government, but are not included with US Treasuries in the zero risk weight category.
- 8) The risk-weights assigned to investments appears an attempt to address interest rate risk inherent in longer term securities; however, the fact that a 30-year Treasury Bond is assigned a zero weight while a 5-year Agency is assigned a 75% weight is inconsistent with this objective. The assignment of risk-weights to investments appears arbitrary and is punitive and counterproductive to the establishment of sound investment management. It is our recommendation that the risk-weight assigned to GSEs be set at the same 20% level as our bank counterparts.

- 9) There is a lack of clarity as to what is required to demonstrate a "comprehensive understanding" of an asset-backed investment. Further, there is neither a definition provided of what constitutes an asset-backed investment nor an objective description of how such a rule would be applied. It is our recommendation that this provision is either removed entirely or the components be clearly defined to remove the subjective nature of application.
- 10) Finally, we oppose the proposed rule allowing the NCUA to subjectively establish an "Individual Minimum Capital Requirement" on credit unions. We believe the NCUA currently maintains sufficient authority to impose directives on credit unions where unsafe or unsound business practices are employed; thus, this added requirement is unnecessary.

Affinity Plus supports a modern capital system that is properly vetted and implemented over a sufficient period as to allow credit unions ample time to respond. As drafted, The Rule impacts our ability to help our members and adds an additional hurdle when providing quality loans to our members. Should the NCUA choose to change only one aspect of The Rule, we respectfully ask that it be the time period over which The Rule is implemented and that the extended time horizon is sufficient to provide credit unions ample time to shift strategies and balance sheet composition with the least amount of impact on our members.

If you have any questions or comments, please do not hesitate to contact me at (651) 312-9262.

Sincerely,



Dave Larson  
President/CEO  
Affinity Plus Federal Credit Union  
Charter: 24362

cc: Senator Amy Klobuchar  
Senator Al Franken  
Congresswoman Betty McCollum (MN 4<sup>th</sup> Congressional District)  
Minnesota Credit Union Network