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Secretary of the Board Gerald Poliquin

National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

May 28, 2014

Subject: Prompt Corrective Action Risk-Based Capital Comment Letter

Dear Mr. Poliquin,

I am writing on behalf of ARC Federal Credit Union, Charter number 11304 (ARC FCU), which serves multi common bond SEGs in Central Pennsylvania. We have over 11,000 members and $69 Million in assets. ARC Federal 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.

ARC FCU suffered greatly, through no fault of its own, with the failure of one its primary Corporate Credit Union and the resulting Corporate Stabilization Expenses. The combined costs to ARC FCU were over $1.2 Million. We are a Low Income Designated Credit Union and have had challenges in building our capital in the past. Our Net Worth declined from 10.39% in 2007 to 7.73% for December 31, 2013 which currently includes $300,000 in Secondary Capital. Under the current Tier I net worth requirements we have been above 7% Net Worth and considered Well Capitalized. However, under the proposed Risk Based Capital (RBC) Proposal we would fall below the 10.5% ratio to 9.47% and classified as Adequately Capitalized. When we reviewed the components of the proposed RBC calculation there are few alternatives for us to have RBC above the 10.5% ratio, given the timeframe of the proposed calculation and our current balance sheet that would not impact the current earnings or the structure of our assets. Any change in the structure of our balance sheet could dramatically affect the type and cost of our financial services to our membership.

We do not see a reason, at this time, for the RBC Proposal in the monitoring and examination of the safety and soundness of ARC FCU. We have a very active Management and Board Asset Liability Management Committees who review on a quarterly basis the risk areas of the credit union. The risk areas that are monitored include: Interest Rate Risk, Concentration Risk, Liquidity Risk, Capital Risk and Credit Risk. Through various simulation models and trend analysis we take steps to mitigate as much risk as possible given varying conditions and yet be able to enhance income and monitor growth for the credit union. We believe through these methods and our annual NCUA examinations the risks inherent in the assets, liabilities, and operations of ARC FCU are properly addressed and mitigated in the best interests of stakeholders. The additional layer of measurement imposed by the RBC Proposal, in our opinion, would not enhance the current methodology we have in place.

We disagree with the section of the RBC Proposal that would allow the NCUA to impose higher capital requirements on credit unions on a case by case basis. An NCUA Examiner could have certain bias towards a particular type of asset or product of the credit union and could therefore require additional capital in order for that credit union to offer that product or service to its membership. There could be mitigating factors utilized by the credit union that would be different in another area of the country or another membership base, yet imposing these higher required capital standards for this product or service could impede the credit unions pricing or ability to offer it to its members.

We disagree with the risk weightings for Investments especially those weightings which are greater than .75 reflecting the longer term investments. We believe these risk weightings should be the same as those proposed under the FDIC's/Basel III weightings which reflect the potential risk in these allowed investments. The calculation for assessing risk for these longer term investments should be measured by your Interest Rate Risk (IRR) model and dealt with through a prudent policy with appropriate Board established parameters. It seems this increase in the risk weights for longer term assets is an additional way to measure and restrict IRR on the balance sheet which in our opinion is wasted effort and time.

We also question the 2.00 risk weighting on the PIC/Perpetual Contributed Capital in the Corporate Credit Unions. We would hope that the NCUA's recent regulatory actions and current examination process of the Corporate Credit Unions would enable this investment of credit union funds to warrant a risk weighting less than 2.00. We feel confident that with these new regulations and NCUA oversight we will never repeat the most recent corporate failures.

In addition, we do not agree with the increase in risk weightings based on the concentration of Real Estate Loans. We currently monitor the risk in this category of asset through the IRR calculation and out concentration risk calculation. We believe this is again a redundant calculation in the risk both from a rise in interest rates and the amount of credit union assets contained in this category on your balance sheet.

Although we do not currently offer Member Business Loans we are concerned if the proposed risk weightings on these types of loans are part of the regulation then our ability to offer these types of loans would be impaired due to the amount of increased capital we would need in order to offer our members this financial service.

We do not believe the NCSUIF deposit should be excluded from the calculation of RBC ratios, since if the credit union is liquidated this deposit could be used to help to defray losses experienced through the liquidation process of the credit union. If the credit union ceases to exist why should the fund retain this deposit and if it does who is the owner of the funds?

We do not agree with NCUA's implementation time line of 18 months after enactment of the regulation. As in our case, if the proposed rule timeframe for compliance remains as currently presented, then the only feasible way ARC FCU would be able to be in compliance, would be to dramatically change our balance sheet which would most certainly result in a further reduction in capital and earnings and alter the amounts and types of financial services we would be able to offer our members in the future. We would request that the NCUA consider a much longer time horizon for the full implementation of this proposed regulation. It would seem fair to structure a timeframe that would allow for the restructuring of balance sheets and additional earnings in the area of 3 to 4 years so that the impact on credit unions would be limited in nature.

In summary, we understand the reasoning and purpose behind this RBC proposal and feel that we could support a variation of the proposed regulation given some increased time for compliance and a restructuring of the components used for measuring the risk weightings.

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

Respectfully,

Victor A. Gioiosa Jr.

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