Farmers Insurance Group
Federal Credit Union

April 17, 2015

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

RE: Comments on Proposed Rule: PCA – Risk-Based Capital

Dear Mr. Poliquin:

I am writing on behalf of Farmers Insurance Group Federal Credit Union. We have approximately 47,500 members, $666,514,000 in assets, and a net worth ratio of 13.3% as of 2/28/15. Our core business model is that of a commercial lender. In 2000, our Credit Union was approved by the NCUA Regional Office to be grandfathered under the Credit Union Membership Access Act of 1998 as "predominantly a commercial lender." Since that time, we have continued to grow our reserves and our commercial loans portfolios prudently.

Our members, Farmers Insurance agents and district managers (DMs) are self-employed, and are at the core of how Farmers competes in its chosen markets, and because Farmers Group Inc has chosen our Credit Union for many decades to do "contract value" secured lending to them, we need to be able to continue doing what we've been doing for decades with our MBL portfolios. These self-employed entrepreneurs have some rather unique business and personal financial needs, which our Credit Union fulfills.

Our credit union questions the wisdom of a revised RBC ruling that is designed to avoid almost all losses to the NCUSIF in a very severe financial crisis. Overall, credit unions maintained strong capital levels before, during, and after the recent financial crisis. Given the strong performance of credit unions and the NCUSIF during the financial crisis, especially compared to our counterparts in the banking industry, there is no proof that credit unions were undercapitalized, or that there would have been a material reduction in insurance losses to the NCUSIF if the revised risk-based capital rule had been in effect before the financial crisis.

Despite the claim that only a limited number of credit unions will be impacted by this revised proposal, this proposal would force credit unions to carry a material amount of additional reserves to achieve your recommended capital cushion levels. Based on NAFCU's analysis, the capital cushions for credit unions will receive a $490 million hit if NCUA implements a two-tier approach for RBC. In addition, in order to satisfy the proposal's "well capitalized" thresholds, credit unions would need to raise an additional $760 million.

Our credit union understands that the Federal Credit Union Act (FCUA) directs the NCUA to devise a risk-based capital requirement that is comparable to the requirement for banks. However, it also directs the NCUA to take the unique nature of credit unions into account. Our credit union believes the requirements in the revised ruling overreaches on the first directive and does not take the unique nature of credit unions into account.

We also believe that the cost for credit unions to implement the proposal far outweighs the benefits of the proposal, if any. According to your estimates, it would cost your agency approximately $3.75 million to update its examination system and train staff to implement the proposed requirements. There would also be an additional cost for credit unions to complete the new sections in the Call Report for the revised proposal.

In regards to the risk weights, our credit union feels that the weight for CUSO investments (150%) in the revised proposal is too high and could potentially impact other credit union's ability to own CUSOs. The proposal has not made it clear as to why CUSOs are considered riskier than these other types of loans. In light of the struggle that credit unions are facing in today's environment, CUSOs have been instrumental in helping credit unions generate net income and hence the capital that the NCUA is seeking.

The proposal also reflects a 100% risk weight for credit unions with MBLs less than 50% of assets, which we are in agreement with. However, credit unions with MBLs at more than 50% of assets are given a risk weighting of 150% in the proposal. We are assuming that business loans are given different ratings based on their percentage of assets to address concentration risk. It is worth noting that banks do not have a tiered weighting system based on percentage of assets. Instead, the concentration risk for banks is addressed through their examination and supervisory process and not by the actual risk weight in their capital system. The regulators for the banking industry recognize that an individual business loan's risk does not change based on the number and balances of the business loan portfolio. The risk weight should be the same for all business loans and any concentration risk issues should be addressed through the examination process.

Our credit union has a concern that the proposed rule's risk weighting system for CUSO investments and MBLs more than 50% of assets is overly conservative and does not reflect the actual risk in credit unions' balance sheets. This conservatism will impact all credit unions because it will force us to make risk management decisions that ensure compliance with the risk based capital ratio rather than give credit unions an opportunity to prudently manage the risk on their balance sheets. This will be a detriment for historically sound, well managed credit unions.

The 10% "well capitalized" requirement in the proposal represents a significant jump from the current requirement for this classification. Even though our credit union's capital ratio is well above the proposed 10% requirement, there is potential concern that we could run up against the limit if we continue to grow specific assets, particularly business loans, a consistently profitable endeavor for us for decades.

The proposal could also potentially impact the level of investments in technology that is required for credit unions to grow and remain competitive with banks. It will also impact the growth in specific asset classes. For example, member business loans will require more capital. This will potentially temper the growth strategies of credit unions that rely on business lending to help drive their loan growth, net income, and capital growth. The rule proposal will also impact the credit unions that are comfortably "well capitalized." The rule will essentially translate to a smaller capital buffer for these credit unions.

Due to the tougher capital requirements, the topics of capital allocation and planning will consume more time during strategic planning sessions for management teams and board of directors. In addition, capital modeling to ensure compliance with the proposal in various scenarios will require credit unions to expend additional resources in this arena. As a result, this risk based capital rule will divert the attention and resources of credit unions from other strategic issues, such as growing the business and serving our members.

Thank you for the opportunity to comment on this proposed rule and for considering our credit union's view on this rule. Should you have any questions about our comments, please feel free to contact me at (323) 209-6001.

Sincerely,

Mark Herter

Mark Herter, CEO
Farmers Insurance Group Federal Credit Union