

March 31, 2015

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

RE: Comments on Proposed Rule: Risk-Based Capital; RIN 3133-AD77

Dear Gerald Poliquin,

I am writing on behalf of United 1st Federal Credit Union, which serves some 100+ SEGs and six underserved counties in Georgia. We have 20,000 members and \$129 million dollars in assets. United 1st Federal Credit Union appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed amendments to the Risk Based Capital Rule.

The Need for the Rule

NCUA proposed a risk-based capital rule to make the RBC system for credit unions more like the bank RBC requirements, to respond to GAO recommendations, and to require credit unions that take more risk on their balance sheets to hold more capital to minimize losses to the share insurance fund.

United 1st FCU's Position: There does not appear to be historical data to support this sense of urgency. Natural person credit unions and the NCUSIF had very strong performances during the recent financial crisis and Great Recession. In our state of Georgia bank failures were at or near the highest in the country. We see no evidence that credit unions were undercapitalized or that there losses to the NCUSIF would have been materially lower had RBC2 been in effect.

We acknowledge the Federal Credit Union Act (FCUA) directs the NCUA to devise a risk-based capital requirement that is comparable to the system in effect for banks. It also requires NCUA to take account of the unique nature of credit unions. We question whether it is realistic to attempt to devise a RBC system that would avoid virtually all losses to the NCUSIF. We believe the RBC2 proposal goes too far and does not meet the act's requirement to take the unique nature of credit unions into account.

Finally, we are very concerned with the costs to the credit union system of implementing the proposal. The potential benefits do not seem to outweigh the costs.

Interest Rate Risk

Interest rate risk (IRR) rules are not included in RBC2; however, NCUA asks specific questions on how the agency should address IRR. One of the most substantial changes in RBC2 was to eliminate higher risk weights for longer-term investments. We understand that NCUA intends to issue another proposal on interest rate risk that would apply a minimum quantitative measure of IRR for all covered credit unions. This method would use some common measurement framework. This would be in addition to the IRR Program rules already in place. NCUA has asked credit unions to provide comments on how IRR should be addressed in the context of PCA.

United 1st FCU's Position: We contend that IRR should **not be** incorporated into the RBC system, or added to the PCA system. NCUA already has an IRR rule in place that provides adequate coverage. As an additional comment we agree with others that the measurement of IRR is more an art than a science. There is more than one way to evaluate IRR, and selecting just one in a fixed rule would unnecessarily restrain credit union risk-management. If NCUA feels that additional IRR steps are needed, they should be addressed in the regulatory, examination, and supervision process. We comment that IRR should be handled through

examination supervisory processes.

Risk Weights

We very much appreciate the changes from RBC1 to RBC2. The risk weights for RBC2 are improvements. In particular, the risk weights for higher concentrations of mortgage loans and business loans have been reduced, but the risk weights for CUSO investments remain high.

United 1st FCU's Position: The risk weights for CUSO investments could affect a credit unions' ability to own and operate CUSOs. We only participate in two such CUSOs but we would not want this to restrict us with future needs.

Complex Credit Union Definition

The RBC rule only applies to a "complex" credit union as defined by NCUA. The changes from RBC1 to RBC2 are troubling. RBC1 defines any federally insured credit union with more than \$50 million in assets as complex. RBC2 would increase this threshold to \$100 million.

United 1st FCU's Position: We have concerns with the idea of defining credit unions as complex based solely on asset size. Rather NCUA should define complex with attributes such as deposit account features, member services, loan and investment products, and portfolio make-up. This approach is more consistent with the FCU Act which requires NCUA to consider "the portfolio of assets and liabilities" of credit unions when determining whether they are "complex."

Other issues to be taken into consideration:

- The asset threshold if used should be indexed so that it does not apply to smaller and smaller credit unions through time due to inflation?
- If used the threshold for a "complex" credit union be set at some number greater than \$100 million.
- The number of complex products and services a credit union will be allowed to have before being designated as "complex," should be published and commented on before implementation.

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

Sincerely,

Patrick Conn
Chief Executive Officer
United 1st Federal Credit Union

cc: CUNA, CCUL