From:	Garland Koch
To:	_Regulatory Comments
Subject:	Garland Koch - COmments on Proposed Rule: PCA - Risk-Based Capital
Date:	Thursday, February 20, 2014 9:30:29 AM

The proposed changes to 12 CFR 702 Prompt Corrective Action will have significant effects on Risk-Based Capital recognition for credit unions. These sweeping changes make credit union Risk-Based Capital calculations much more reflective of comparable calculations for the FDIC. I believe the proposed changes provide significantly more clarity and understandability to a complex calculation and will make the resulting analysis more valuable and useable.

However, I have comments and suggestions in several areas as follows:

702.104(b)(1)(vi) – ALLL, limited to 1.25% of risk assets in calculation of risk based capital. The discussion states this limitation is proposed to provide an incentive for granting quality loans and recording loan losses timely. While I can understand the limitation on capital inclusion for the reasons stated, I still feel complete disregard for the excess ALLL does not provide an equitable solution. I would suggest the excess over 1.25% of risk assets would more properly be recognized as a reduction of risk based loans at 100%.

702.104(c)(i)(D) – Category 1 – zero percent risk-weight. The regulation includes U.S. Government obligations directly and unconditionally guaranteed by the full faith and credit of the U. S. Government in this category. This would obviously include deposits in the Federal Reserve Bank. However, by default, such deposits are weighted at 20% because separate data for Federal Reserve Bank deposits are not currently gathered. This can be a significant investment and I feel gathering of data for these deposits would be proper. These data would be easily identifiable and easily reported by any credit union and would not constitute an undue burden.

702.104(c)(2) – Total risk-weighted assets for on-balance sheet assets. Loans: The proposed regulations include significant analysis of the concentration risk related to loans on the balance sheet of regulated institutions. However, no consideration is now being included for interest rate risk. I find it unusual that interest rate risk is not considered at all, especially considering the fact that data are currently available from the call report to analyze this risk, at least for 1st mortgage loans and possibly member business loans, and the risk associated with holding long-term fixed rate loan can be very significant. I would suggest there could be two separate calculations of risk-weighted assets for these types of loans, one for concentration risk as proposed and one for interest rate risk utilizing maturity and re-pricing data currently available. The two calculations could be weighted to eliminate double counting of assets.

702.104(c)(2) – Total risk-weighted assets for on-balance sheet assets. Investments in CUSOs and Mortgage Servicing Assets (MSRs): My concern for these assets results from the concept of including Investments in CUSOs in the calculation on an unconsolidated basis, which is not a GAAP measure, and also including MSRs on a consolidated basis, which is according to GAAP. In our specific circumstance at Marine Credit Union, our MSRs are contained in our CUSO and through consolidation are ultimately included at a 250% risk weight in our risk-weighted assets. However, our CUSOs have minimal liabilities and so these same MSRs represent a significant portion of the equity of our CUSOs on an unconsolidated basis. Therefore, since the Investment in CUSOs are also weighted at 250%, our MSRs are effectively included twice at a 250% risk weight for a resulting weight of 500%. I believe this is an unintended consequence of the currently proposed rules. Information regarding MSRs is currently gathered on a supplemental schedule for specific identification. I believe this situation could be easily handled by requiring separate identification of MSRs held in CUSOs and MSRs owned directly by the credit union. This information would be readily available and would not cause significant additional data gathering requirements for reporting institutions.

I believe the proposed changes to the Prompt Corrective Action – Risk-Based Capital rules represent a significant improvement to the regulation and will lead to much better and more easily understood analysis. However, I believe some changes could make the ratios much more valuable to regulators and credit union officials without major changes to data gathering requirements for the credit unions.

I thank you for this opportunity to comment.

Garland Koch, CFO
Marine Credit Union
811 Monitor Street
La Crosse, WI 54601
Phone: 608-791-1543
Email: garland.koch@marinecu.com

Garland Koch, CFO
Marine Credit Union
811 Monitor Street
La Crosse, WI 54601
Phone: 608-791-1543
Email: garland.koch@marinecu.com