ALABAMA
credit union

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April 1, 2014

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

Re: Risk Based Capital Proposal

Dear Mr. Poliquin:

Thank you for the opportunity to comment on the proposed changes to NCUA's capital standards. While we support requirements for credit unions to be strong financially, we believe this proposal could have detrimental affects to the ability of our movement to grow, especially at a time when growth opportunities are so plentiful.

We believe that this elevated risk rating system will reduce the number of credit unions willing to consider merging troubled credit unions, and may result in conversions to banks, whose Basel III calculation appears to be less onerous. To be sure, Alabama Credit Union is well capitalized under both measures, although our margin to be well capitalized is reduced under the risk based formula.

Incidentally, about 18 months ago we were able to submit our balance sheet to the Basel III model, and under the bank capital requirement, ACU's risk based capital was significantly higher than under the NCUA proposal.

Our specific concerns and suggestions are listed below:

1) First, <u>we question the need for this change</u>, especially given the fact the movement came through the worst economic time in our history, with most credit unions now returning to profitability. Why is such a drastic change really needed?
2) Second, <u>why now</u>? Yes, credit unions are profitable again, but some have just returned to profitability, and many as a result of ALLL adjustments. <u>And we're facing extraordinary regulatory demands that will impact profitability – health insurance</u>

changes, the CFPB's overreach, and now wage inflation as a result of new overtime rules. There are also new GAAP rules under consideration that could require significant adjustment to ALLL accounts. It would seem that the NCUA – if it must enact new capital standards – should require compliance at minimum of 2 – 3 years into the future to allow credit unions to better prepare for the impact, and to put the challenging economic issues further in the rear view mirror.

3) As for the specific calculation, we believe that the risk rating for many of the specific asset categories needs attention. For example, for MBL's to be risk rated at a level higher than for a comparable bank is inconsistent, and fails to recognize that credit union losses in this segment are far lower than they have been for banks. Also, we suggest some consideration of the individual credit union's historical performance as it relates to MBL's. Alabama Credit Union has been making MBL's for over ten years, and has yet to incur a single dollar loss, yet our MBL risk rating is the same as another credit union across town whose MBL delinquency and loss ratio is substantial.
4) We also question using the estimated average life of securities (based on maturity buckets) as a means for determining the risk of an investment portfolio. Longer term, adjustable and amortizing securities carry far less risk than non-amortizing, fixed rate issues, but the picture may not be fully recognized by merely comparing the maturities of the two issues. We recommend NCUA consider a more detailed breakdown of the securities within a portfolio, and risk rate accordingly.
5) The same can be said of a credit union's mortgage portfolio, which can be less risky if it is comprised of shorter and/or variable rate instruments. And as with MBL's, a credit union's historical losses from mortgage loans should be considered when assessing the level of risk.
6) Finally, it makes sense to us that some credit should be provided to credit unions that have historically been well operated, perhaps those that earn higher CAMEL ratings. We could envision an increase of .25% or .50% for those credit unions with a rating of "1" or "2", and perhaps a downgrade for those with a "4" or "5". This could remove examiner subjectivity, which is provided for in the proposal.

As we said above, Alabama Credit Union supports a well-capitalized credit union movement, but <u>we believe this proposed alternative needs significant improvement, and any final regulation should be phased in over several years</u>. With banks charging new fees and becoming less personal, it's an opportune time for credit unions to grow, add members, and increase market share. In our view, it is not time to impose new capital standards that constrain growth and thereby limit our opportunity.

Again, thank you for the chance to comment on this proposal.

Very truly yours,

Steve Swofford, President