United 1st Federal Credit Union

America's Credit Unions
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April 15, 2014

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

United 1st Federal Credit Union
Charter: 04999

Dear Secretary of the Board Poliquin,

I am writing on behalf of United 1st Federal Credit Union, which serves several counties and many SEGs in South Georgia. We have about 19,000 members and $126 million in assets. United 1st 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. After sampling the NCUA Calculator for the Proposed Risk-Based Capital Rule and the CUNA Risk-Based Capital Simulator and in plugging in our forecast, we conclude that we will be constrained in what we can do in future investments. This has a domino effect which will limit what we can provide to our members in the way of favorable loan and share rates.

Commentary on NCUA's Risk Based Capital Proposal

We agree that a risk-based capital is necessary to keep up with what other financial institutions are doing, but do not agree with the present proposal. We do not agree that the individual examiners or supervisory examiners can impose and higher capital requirement on individual credit unions. We believe that this power is limited to the NCUA board only.

Regarding the exclusion of the National Credit Union Share Insurance Fund 1% deposit in the risk-based capital calculation, it is very concerning that this treated as having no value when so much has been done to preserve the integrity of the fund. We disagree with this treatment in the calculation.

NCUA estimates that if the proposed risk-based capital requirements were applied today, the aggregate risk-based capital ratio (dollar weighted average) for credit unions subject to the proposed risk-based capital measure would be 14.6 percent and the credit union average risk-based capital ratio would be 15.7 percent. These average numbers are well above the proposed 10.5 percent requirement for classification as well-capitalized. However, many more credit unions will have risk-based capital ratios near 10.5% than currently have net worth ratios close to their risk-based-net-worth requirement. To be clear, more credit unions than NCUA has indicated would be impacted as their net worth would fall to just barely over well-capitalized or adequately capitalized levels.

We disagree with some of the risk-weights assigned in the proposed rule. In the model, a new auto loan and used auto loan which are secured have the same risk weight as an unsecured loan and credit card loan. Experience shows us that credit card loans have a delinquency rate more than 4 times that of an auto loan. Also, we question why a 7 year investment that is federally backed should have a risk-weight twice as great as a 30 year fixed mortgage. A number of the risk weightings, including for member business loan and mortgage concentrations as well as for CUSO investments, do not appear to be properly assigned for credit unions. Finally, regarding risk-weighting, the use of higher risk-weights on long-term assets to deal with interest-rate risk is misleading without considering liability maturities.

The proposed risk-based capital rule provides weightings to non-delinquent 1st mortgage loans based on the percentage of assets of the credit union. While we do not disagree that there are risks in mortgage lending, the risks can be mitigated in underwriting. United 1st has a strong track record with the performance of our portfolio mortgage loans. This would suggest that the portfolio is less risky and thus the weights given in the model should be lessened to account for the decreased risk. The current model does not allow for this.

Also, the time line for implementation should be equivalent to that which the FDIC provided to Community Banks. NCUA is proposing that the rule would go into effect approximately 18 months after the publication in the Federal Register. This would not give credit unions sufficient lead time to plan for the new risk-based capital ratio requirements and other proposed changes to part 702 and implement them properly. This is particularly important as many credit unions may wish to alter their balance sheet composition in response to the rule. We urge NCUA to use a much longer implementation period, particularly in light of the multi-year development and implementation of Basel III for banks. During the 18 month implementation period, credit unions could be required to continue to comply with current part 702.

To summarize our position the proposal will greatly limit our ability to provide better services to our members. It appears that NCUA is trying to include too much into a risk-based procedure i.e. including interest rate risk, and concentration risk all in one package. We question the some of the risk-weights assigned. These are our initial comments on the proposal. After further review we will probably send you additional comments. United 1st FCU staff will be working with our league and CUNA to develop a plan to address the deficiencies in the proposed regulation. We will be meeting with peer credit unions to solicit and compare views.

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

Sincerely,

Patrick T. Conn

Patrick T. Conn

Chief Executive Officer