APCO EMPLOYEES CREDIT UNION
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[April 9, 2014]

MAY05'14 PM 1:41 BOARD

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

Re: Comment to the Proposed Prompt Corrective Action – Risk-Based Capital Regulation

Dear Mr. Poliquin:

APCO CUSO, Incorporated is a Credit Union Service Organization wholly owned by APCO Employees Credit Union. APCO CUSO is invested in Common Bond Title, LLC and Common Bond Mortgage, LLC. Common Bond Mortgage provides underwriting and funding of mortgage loans for APCO Employees Credit Union and certain select partner credit unions. Common Bond title provides title and closing services for these and additional credit unions. On behalf of the Board of Directors and management of both APCO CUSO and APCO Employees Credit Union, I would like to submit the following official comment letter regarding the NCUA's proposed risk-based capital rule, specifically as it addresses the risk weighting of investments in Credit Union Service Organizations.

APCO Employees Credit Union's initial capital investment in APCO CUSO has been surpassed several fold by income generated by the CUSO. Even though the effect of the proposed risk weighting of investments in CUSOs is immaterial for the purposes of determining APCO's capitalization level, we feel compelled to comment because of the potentially detrimental effect of such an arbitrary and excessive risk metric.

Common Bond Mortgage partners with certain select credit unions in the state of Alabama. Those credit unions often lack the liquidity to offer mortgage loans to members that may be well qualified and as a result, those members and any appropriately priced and secured loans they might make at their credit union may be made, serviced and potentially sold repeatedly by regional or national banks. Instead, and as a result of the services offered by Common Bond Mortgage, these credit unions have access to a branded, online mortgage lending website, along with proven promotional materials, the expertise of underwriters and title professionals and, if the credit union doesn't want to or cannot fund the loan, a source of funding and servicing. If Common Bond Mortgage acquires the loan, APCO agrees contractually not solicit the members of the partner credit union.

APCO does not have a community charter. APCO's current loan to share ratio is approximately 24%. The mortgages generated by Common Bond Mortgage carried as assets on the books of both APCO Employees and partner credit unions are well underwritten with appropriate loan to value ratios and properly secured. In the proposed RBC regulation, these same assets are risk weighted between 50 and 100 basis points depending on the percentage of assets they comprise. Yet the minimal initial capitalization that allowed for the establishment of APCO CUSO and its related services would be risk weighted at 2.5 to 5 times that.

In fact, even if the resulting mortgages were to become delinquent, they would only be risk rated at 100 basis points. So a capital investment in a CUSO that is in no way in "default" or at no risk of loss would arbitrarily be risk weighted as though it was 2.5 times as risky as a delinquent mortgage loan.

The proposed RBC regulation provides for no distinction between CUSOs. The 250 basis point risk weighting to be assigned to all CUSOs across the board implies that ALL CUSOs are profoundly risky entities. Even perpetual capital in Corporate Credit Unions which cannot be "redeemed" by natural person credit unions is only risk weighted 200 basis points. CUSOs are arguably as diverse and more so than the credit unions that have formed them, invested in them and receive services from them.

Yet, in the risk weighting of CUSOs, no consideration is given to the minimal initial capital investment made, the profitability of APCO CUSO, or the quality of assets generated by its activities. In fact, it appears that NCUA would penalize a CUSO that has actually succeeded and generated income by applying the CUSO risk weighting to the appreciated value as well as the initial investment in the CUSO. Generally Accepted Accounting Principles apply fair value rules to reduce the value of a balance sheet item when it appears uncollectible or its market value is less than its historical cost. The risk weighting of the appreciation in the CUSO would appear to do the opposite, reducing, however minimally, the capital standing of a credit union when its' CUSO is generating income.

A Federal Credit Union may currently only invest less than 1% of its assets in CUSOs. It is conceivable based on NCUA Rules and Regulations 12 C.F.R. Section 701.2 (c) (5) that a credit union may loan more to one member than they have invested in a CUSO. Yet that loan would only be risk weighted based upon the credit union's concentration in that type of loan and its delinquent status; a worst case scenario of 200 basis points. This holds true even if the loan is a business loan representing an investment in a member's business at a lower risk weighting than our own CUSO where we exercise control.

Risk weighting CUSOs 250 basis points as a matter of course would be adverse to the cooperative nature of credit unions and a disincentive to those desiring to cooperate. CUSOs provide the means to reduce costs, capitalize on mutual efforts, share risk, and generate income. Consistently applying an arbitrary metric to distinctive entities would fail to accurately assess or compensate for risk to the capital of the credit unions that founded them.

The Board of Directors and management of APCO Employees Credit Union and APCO CUSO would like to recommend that risk ratings for CUSO investments and loans be removed as immaterial.

Thank you for the opportunity to comment.

Very truly yours,

Don W. Manuel

APCO CUSO, Inc. CEO

cc. Deborah Matz, Chairman
Michael Fryzel, Board Member
Richard Metsger, Board Member