Allegiance CREDIT UNION

MAY 05'14 PM 1:42 BOARD

May 1, 2014

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

RE: Comments on the Risk Based Capital Proposal

Dear Mr. Poliquin:

On behalf of Allegiance Credit Union, we would like to offer the following comment letter on the recent NCUA proposed Risk Based Capital rule. We recognize the need for a well balanced and credit union specific set of capital standards as an alternative to the current net worth calculation but have serious concerns about the proposed Risk Based Capital rule that we feel must be addressed or the result could put our credit union at a competitive disadvantage. We would like to respectfully address the following concerns and offer possible improvements to the regulation in these specific areas.

NCUSIF Capitalization Deposit – The Administration should reconsider the deduction of the NCUSIF Capitalization deposit from equity and from the assets denominator. The proposal implies that the deposit is worthless and should be expensed versus the current method of capitalization. The proposal can bring the accounting treatment into question and makes us look more like a bank. We believe that leaving the NCUSIF Capitalization deposit as an asset, assigning a risk weight, and removing the deduction from net worth is the best option.

Investments in CUSO's – weighting investments in CUSO's at 250% is stating that CUSO's serve a risk to the credit union industry. NCUA recently passed a regulation both supporting CUSO's and addressing the risks. The current proposal indicates that CUSO's are of no benefit to the credit union industry. We respectfully disagree. We have a $50,000 investment in a CUSO and our potential liability would not be 250% of that amount. In addition, this CUSO has saved us thousands of dollars and contributed to the bottom line results and growth of our capital. The proposal of treating all CUSO investments the same would penalize us from investing in a CUSO and also penalize any growth in our investment value. We are a collaborative movement and believe that the CUSO risk weighting should be at 100% as CUSO's promote collaboration, risk sharing, and have been successful across the nation. The current proposal would in effect eliminate the incentive for credit unions to collaborate and undermine the very heart of credit union cooperation.

Mortgage Servicing Rights – weighting MSRs at 250% is penalizing our credit union for retaining our member relationship. We decided years ago to service our loans even though we don't hold longer term real estate loans in our portfolio. If they are properly accounted for and valued, we believe they have minimal risk. We believe assigning a risk weight of 100% or 150% based on the type of accounting method would be a better option.

Investments – weighting investments on years to maturity only captures potential interest rate risk and does not take into consideration the credit risk of the security purchased. We purchase almost all government backed securities and have considered them to be a safe investment and of very little credit risk. The proposed rule does not state if these are weighted at 0%. We have seen no default losses in GNMA, FNMA, and FHLMC during the past recession. We would recommend that a more detailed breakdown of securities be established within a portfolio and risk rated accordingly.

Implementation Timeline – the recommended 18 month time table will not allow sufficient time for us to effectively adjust our balance sheet. We have been working on increasing Net Worth over the past several years at the rate of 25 bp a year. This has been our major focus. Under the proposed rule our Risk Based Capital Ratio would drop to adequately capitalized level. To shift from Net Worth improvement to restructuring our assets will require not only a decrease in earnings which are already being pressured by low interest rates, but we will have to restructure lending in an attempt to comply with the new rules. This would impact the areas of lending that we use to serve our membership. To meet the proposed timeline we would be forced to drastically limit lending in an effort to meet the proposed risk based capital level of 10.5%. This action would in effect be counterproductive to serving our membership and building reserves due to the decrease in net income. We would recommend at least a three year implementation period to give ample time to adjust our balance sheet with the least amount of negative impact to the credit union and our members.

Examiner Discretion – The recommendation of subjective examiner discretion to increase the required Risk Based Capital Ratio beyond 10.5% is arbitrary and confusing. We would need to manage to a moving target. We should be able to know concretely what our regulators capital expectations are and to be able to manage to a specific number.

In closing, we appreciate your willingness to allow Allegiance Credit Union to comment on this important regulatory proposal. We respectfully and strongly encourage you to consider possible improvements to the Risk Based Capital Rule in accordance with our recommendations included in this comment letter. The strength, safety, soundness and long term viability of the credit union industry will be impacted by the capital structure under which we operate in the years to come. It is crucial that any changes to the credit union capital system be appropriate to the risk and balanced with the ability to effectively manage that risk. If we can be a source of any further information about this matter, please do not hesitate to contact us.

Sincerely,

Lynette Leonard

Lynette Leonard, President/CEO

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