UDBELL
Federal Credit Union

May 8, 2014

MAY12'14 PM 2:38 BOARD

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

Dear Mr. Poliquin,

Thank you for giving credit unions the opportunity to respond to the proposed Risk Based Capital rule. Upper Darby Belltelco Federal Credit Union is a $56,000,000 credit union serving 4,000 members. Our management and the Board of Directors have discussed the rule and its potential impact on credit unions. We would like to share some of the observations we have regarding the new rule.

Our first area of concern is the risk weighting of FDIC and NCUA insured investments, particularly those that mature in three years or less. While acknowledging that there is a factor for potential interest rate risk associated with these types of investments, my understanding is that by investing in insured certificates of deposit and maintaining the $250,000.00 insurable threshold balance, the element of risk would be mitigated. The risk weights are being set at 20% for one year or less and 50% for one to three year maturities. In my opinion these weightings are far in excess of what they need to be for insurable investments.

While our investment strategy is relatively simple in that we restrict certificates of deposit to terms of five years or less, we are familiar with other well run credit unions that maintain longer investment ladders. Although the long term risk weights would not impact our balance sheet management, it could have unintended consequences for those credit unions with longer terms. Would they be in a position to drastically change their investment structure in order to avoid the higher weights? Could it trigger losses as the credit union attempts to divest longer term investments in a flat rate environment? Is it advantageous to spin off investments in a relatively short period of time to meet the implementation date? What happens if a well-capitalized credit union finds itself downgraded to "adequately capitalized" after the calculations are performed? Finally, how can the insured investments held by a credit union actually pose a higher element of risk than the factor applied to unsecured loans, regardless of the maturity dates?

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As we look at this new methodology, we are receiving information from peers and advisors that the Federal Reserve, FDIC and OCC recently approved new rules to measure bank capitalization. It appears the updated banking rules will be more straightforward, simpler to calculate, understand, and ultimately manage. In other words, it appears the banks will be using a model more reflective of the one the credit unions have used for nearly a century, while credit unions seem to be migrating to a methodology that is now being rejected by the banks.

While these very banks struggled through the Great Recession and consumed billions in TARP money, credit unions withstood the same challenges while collectively keeping the system afloat through the assessments. Despite the unplanned expenses, credit unions continued to maintain the capital positions necessary to survive and succeed. Credit unions generally emerged stronger as a result of that test.

We have listened to discussions in which some concern has been expressed about the possible subjective nature of the interpretation of the proposed formula. It also seems to reward unsecured debt with lower risk factors than those associated with real estate loans. We agree that the term and balances of real estate loans will often dwarf the unsecured portfolio, and one poorly performing real estate loan will significantly impact the credit union more than numerous personal loans. However, many real estate loans have been granted with the understanding that they offer lower interest rates, lower monthly payments, have possible tax benefits, and ultimately are collateralized. This type of loan benefits both the member and credit union. Would credit unions begin to reduce these types of favorable loans in order to channel them to unsecured debt at higher rates? Would we be able to make the argument that this is beneficial to our members?

Today we believe that our credit union is prepared for the new rules and will continue to keep its well capitalized position, but this isn't about one credit union. It is the impact that the rule change will have throughout the movement.

If you should have any questions or comments please call me at 610-734-1884, or email at schmidt@udbell.org . Thank you for your consideration.

Sincerely,

John C. Schmidt