FIRST COMMUNITY CREDIT UNION ®

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First Community Credit Union 60th Anniversary Since 1954

May 14, 2014 Sent via E-mail to: regcomments@ncua.gov

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

Re: First Community Credit Union Comments on Proposed Rule: PCA – Risk-Based Capital

Dear Mr. Poliquin:

First Community Credit Union appreciates the opportunity to comment on this very important issue regarding NCUA's proposal on PCA – Risk-Based Capital. First Community Credit Union is based in Houston, Texas and serves over 100,000 members in Harris, Fort Bend and Montgomery Counties. Serving as the Compliance Officer of First Community Credit Union, I'm familiar with viewing changes in policies, procedures and in this case the regulation from the members' standpoint. Personally I'm a proponent of the concept of Risk Based Capital, but I'm concerned with the unintended consequences that this proposal may have on our membership particularly in the weighting of proposed capital categories and also the limited timeframe that we are given to comply.

The proposed risk weights without justification are concerning, but the treatment of Credit Union Service Organizations and mortgages held for sale are of particular concern. Working in the area of Risk Management, I understand that CUSO's can pose a high level of risk but this is not always the case. I'm concerned that the "one size fits all" risk weighting for CUSO's will prevent Credit Union collaboration and reduce efficiencies for Credit Unions across the country. This may cause limitations in new product development or new services that we can provide for our members in the future.

In the past, mortgages held for sale were typically loans that Credit Unions would sell to lessen their exposure to credit risk. But in today's interest rate environment, selling mortgages on the secondary market can be a good strategy to hedge against interest rate risk. Also consider the new regulations under the Dodd Frank Wall Street Reform and Consumer Protection Act. Under these new regulations, I think we may see more loans held for sale because of the Temporary Qualified Mortgage exemption to the Ability to Repay Rules. Under these new rules, it's conceivable that some institutions may hold their ATR loans in portfolio and sell anything that meets the Temporary QM definition; especially given that there is no secondary market for ATR loans. This could create a situation where more weight is applied to loans that pose less credit risk. There is a reason the Temporary QM option was added into the regulation. One reason is because these loans should be treated differently than loans sold to a private investor and I think the same approach should be taken in the Risk Based Capital rule. It is my opinion that under the current proposal, mortgage lending in the Credit Union industry would be adversely affected because institutions would be reluctant to take on the interest rate risk of holding them in portfolio and at the same time they would not want to be punished under the new Risk Based Capital Rule.

Under the proposed rule, Credit Unions will be penalized for having unfunded commitments. This will incent Credit Unions to terminate or decrease lines of credit to our membership. We feel that these off-balance sheet activities are critical to our communities whether it's a member accessing their line of credit in a time of emergency or a small business owner trying to advance their business. The access to these funds are critical to our communities that we serve. Our Credit Union is committed to the philosophy of "people-helping-people" and we feel that the weighting applied to unfunded commitments will discourage this philosophy and the Credit Union movement's mission as a whole.

The proposed rule will also incent Credit Unions to start hoarding capital instead of paying higher dividends, booking loans or creating jobs; especially given the short timeframe of 18 months Credit Unions will be given to comply. The model is troubling given the short timeframe, but even beyond the initial 18 months, Credit Unions will be encouraged to pay lower dividends, book less loans and hire less people.

To conclude, I'm a proponent of the concept of Risk Based Capital but I'm concerned with the unintended consequences that this proposal may have on our membership. Considering how the industry fared during the "Great Recession", I think it would be prudent to re-examine the unintended consequences that this proposed regulation will have on our membership.

Sincerely,

Matthew Smith
VP of Audit and Compliance
First Community Credit Union