1st Advantage Federal Credit Union

[LIFE. SHARED.]

May 5, 2014

MAY14'14 PM 2:25 BOARD

Mr. Gerard Poliquin
Secretary to the NCUA Board
1775 Duke Street
Alexandria, VA 22314

Re: NCUA's New Risk Based Capital Proposal

Dear Mr. Poliquin:

On behalf of 1st Advantage Federal Credit Union, we would like to offer the following comment letter on the recent NCUA proposed Risk Based Capital rule. While our credit union recognizes the need for a well-balanced and credit union specific set of capital standards, as an alternative to the current net worth standard, we have serious concerns about the proposed Risk Based Capital rule that we feel must be addressed or the result could be a less workable capital standard putting our credit union charter at a competitive disadvantage to our competitors. We would like to respectfully address the following concerns and offer possible improvements to the regulation in these specific areas:

- With the current capital standard still being required and an additional regulatory standard being proposed, we see the need for more clarity. We like having a rule that doesn't take a one-size fits all approach but need clarification on which standard is primary. If a credit union is well-capitalized on one but not the other, which Prompt Correction Action (PCA) applies?

- We believe credit should be given for strong portfolio performance in mortgage and business lending. We feel it should incorporate credit risk performance by having a 50bps reduction in each concentration category, if the CU has a charge off rate below 2% on a five year average. It's about having incentive for good performance.

- We strongly recommend removing subjective examiner discretion to limit inconsistencies and arbitrary determinations of applying the rule. It's crucial for credit unions to know what their regulatory capital expectations are and to be able to manage accordingly.

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- We also recommend incorporating a supplemental capital provision into the regulations and allow further public comment. We feel it's an appropriate time to address this issue and open up further discussion for supplemental capital from subordinated debt that can legally count for a credit union's regulatory Risk Based Capital Ratio.

- At the very least, we would strongly urge the process to be delayed so the effective date would not take place until January of 2019. Thus providing three full years for credit unions to prepare by effectively adjusting their balance sheets through proper strategic planning.

We are pleased to report that 1st Advantage currently exceeds both the 7% statutory net worth standard as well as the risk-based capital ratio of 10.50%. However, the proposal could affect future growth of our credit union and indirectly discourages some of the elements in our business model.

Thank you for the opportunity to comment on this proposed regulation. We support the efforts of the NCUA to pursue a well-balanced risk-based capital system and with these changes, along with others, believe it's possible to arm credit unions with a rule that will promote long-term success of our industry.

Best regards,

Paul W. Muse
President and CEO

Tom O. Cameron
Chairman, Board of Directors