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:

On behalf of First Community Credit Union and its management staff, I would like to thank you for this opportunity to respond to the Notice of Proposed Rulemaking – Prompt Corrective Action - Risk-Based Capital. First Community Credit Union is based in Houston, TX with 105 thousand members and $1 billion in assets.

We support the authority of NCUA to impose a Risk Based Capital Rule, but disagree with the need to do so and several aspects of the rule as proposed. After examining the proposed rule and comparing its effects on our credit union and strategic goals, we find that it will adversely affect our credit union and will constrain our ability to meet our members' needs. This proposal will increase the regulatory burden of all credit unions, which will experience costs associated with updating policies, data collection, and updating reporting systems. This is in addition to the countless other regulatory burdens currently hampering credit unions from serving our members.

Section 702.105 (b) provides the flexibility for deviating from the proposed risk-based capital requirements based upon NCUA's determination that the credit union's capital is or may become inadequate in view of the credit union circumstances. This amount of discretion and subjective judgment may lead to an abuse of power. Most of this rule is quantitatively written to outline what the new capital requirements represent, but then regulators are given great latitude to create a new number at their discretion with no real avenue of appeal for the affected credit union. The potential for harm is too great and should not be delegated below the NCUA's Board level.

We are concerned with the differences created by this proposed rule and the Basel III requirements that the banking industry is adopting. The proposal's attempt to incorporate Interest Rate Risk (IRR) and concentration risk create a disparity between our two industries that put credit unions at a competitive disadvantage. A comprehensive, one size fits all solution for addressing the various types of risk is too complicated and unwieldy to effectively be measured in one calculation. Attempting to do so will cause unintended negative consequences. If it is NCUA's intent to bring our risk based capital requirements more in line with the banking industry, then the IRR and concentration risk considerations should be left out of this proposal and dealt with as separate subjects.

The IRR component of this proposed rule discriminates against investing and is overly simplistic. Best practices require that IRR be assessed on a global balance sheet basis and not on a piece meal basis. It gives no consideration for the risk offsets that are on the liability side of the balance sheet and it discriminates against asset types. A mortgage back security made up of a basket of 30 year residential loans has no more IRR risk than a basket of 30 year residential loans with similar interest rates, yet they are treated differently. Even within the investment class itself, there is no justification to incorporate IRR to an agency bond, but not to a treasury bond. While treasuries may have slightly less credit risk, they are just as susceptible to interest rate risk. Incorporating an IRR approach across the entire balance sheet would be more proper, but difficult to incorporate within this rule.

It is unclear why Mortgage Servicing Rights (MSRs) are penalized with a risk rating of 250%. The market value of MSRs moves in the opposite direction of real estate portfolios, and provides a natural hedge to the balance sheet. The risk rating should be more in line with real estate loans that they are related to or not weighted at all.

Loans Held for Sale are treated as an "Other Asset" and given the risk weighting of 100%. The vast majorities of these loans are first lien real estate and will be sold within a relatively short time frame. In that light the risk weighting for Loans Held for Sale should be more in line with the 50% risk weighting of first lien real estate loans.

The proposal's 250% risk weighting for CUSO investments does not allow for distinctions with respects to risks regarding the wide array of authorized CUSO activities. We believe that the arbitrary approach applied to CUSOs does not reflect appropriate risk weights based on the specific activities in which the CUSO is engaged in or the composition of their balance sheets.

There is little justification for the 100% to 200% risk weighting of commercial mortgage loans. While individual losses can look spectacular due to their size, overall losses are compatible to the residential mortgage industry. In our particular case, we have a well-run commercial lending program that is almost 10 years old, with no perceptible losses. The risk weighting should be more in line with the residential mortgage loans.

The 200% risk rating of paid in capital to the corporate credit union is too high and should be lowered. We have had the misfortune to examine the effects of the near collapse of the corporate credit union system first hand during the recent recession. While losses were created for a great many credit unions, the overall effect did not create instability as a whole. A 100% risk weighting would be more proper.

Section 702.104 (c) (2) and (d) address a risk weight percent of 1250% for holding asset-backed investments for which the credit union is unable to demonstrate a comprehensive understanding of the features of the investment that may materially affect its performance. This appears to be subject to interpretation and examiner opinion regarding the suitability of such investments and demonstration of the comprehensiveness of the credit union management's understanding. The "understanding" portion of this requirement cannot be demonstrated in a Call Report and is subject to potential examiner bias. The penalty weighting of 1250% also appears to be excessive.

We disagree with the proposed rule limiting the allowance for loan losses in the numerator calculation to no more than 1.25% of risk assets. The ceiling seems arbitrary at best, and given likely accounting rule changes in estimating the allowance, credit unions will be unfairly penalized.

Section 702.103 of the proposal would define a complex credit union as any credit union with over $50 million in assets. NCUA has provided no justification for expanding the definition of a complex credit union. Size alone does not make a credit union complex.

With the slow recovery and historically low interest rate environment that has negatively affected the credit union industry, the timing of this rule is problematic. The implementation time frame in the proposal does not allow for adequate transition and is well short of the five-year implementation for Basel III that banks will be subject to.

We thank you again for allowing us the opportunity to comment on this proposed rule. We are hopeful NCUA finds these suggestions useful. If you have any questions, please feel free to contact me at (281) 856-5456.

Sincerely,

Keith R Domingue, CPA
EVP/Chief Financial Officer
First Community Credit Union