

May 13, 2014

Gerald Poliquin  
Secretary of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-3428  
RE: Comments on Proposed Rule: PCA – Risk-Based Capital

Dear Mr. Poliquin,

Thank you for the opportunity to provide feedback on the Proposed Rule referenced above. DuPont Community Credit Union is a State-chartered credit union with approximately \$930 million in total assets headquartered in Waynesboro, Virginia. There are several areas of the proposed rule that I would like to specifically focus on and express my concerns. The three areas I will focus on in this letter are as follows:

1. 702.104(d)(2) Due Diligence Requirements for Asset-Backed Investments
2. 702.105 Individual Minimum Capital Requirements
3. Liability component of Asset-Liability Management (ALM)

**1. 702.104(d)(2) Due Diligence Requirements for Asset-Backed Investments**

My first concern with this section of the proposed rule is that ‘asset-backed investments’ are not clearly defined. Does it include investments guaranteed by the government or a government sponsored enterprise (GSE) or does it only apply to those investments with no form of guarantee? If it does apply to investments with either an expressed or implied government guarantee, I would like to see less of a risk-weighting applied to those types of investments. In the event of a credit guarantee, the only portion of an investment’s balance at-risk to the credit union’s capital would be any outstanding premium, so having a higher risk-weight on the outstanding premium portion of such investments could be warranted, but not the principal portion. If the credit guarantee is implied such as with most GSE investments, I would like to see less of a risk-weighting as compared to an asset-backed investment with no credit guarantee (expressed or implied).

This particular section of the rule also allows for application of a 1,250 percent risk-weight to asset-backed investments if the credit union is unable to demonstrate a comprehensive understanding of each such investment. This high of a risk-weighting would require a credit union to maintain capital of 31+% ( $1,250\% \times 10.5\% = 131.25\%$ ) over 100% of the balance in the investment itself in order to maintain a well-capitalized classification. Because no more than 100% of any asset can be lost and create a deduction to capital, I do not understand the logic of having to maintain greater than a 100% reserve under even the highest-risk scenario possible.

Lastly, the proposed rule defines the general content of an adequate analysis and the timing of the analysis along with requiring that the credit union’s analysis be commensurate with the complexity of the asset-backed investment and the materiality of the position in relation to regulatory capital. This section of the proposed rule creates ambiguity and therefore heightens my concern that individual examiners will have the ultimate authority in determining whether a

credit union has demonstrated a comprehensive-enough understanding of each asset-backed investment. This concern leads into my second area of focus concerning the Individual Minimum Capital Requirements.

**2. 702.105 Individual Minimum Capital Requirements**

This section of the proposed rule allows for the agency (NCUA) to require higher levels of capital (above the standard requirements for each capital classification). My concern is that this type of liberty built into the rule for the agency's subjective judgment could lead to credit unions managing their institution in an overly cautious way as to retain more capital than is necessary. The impact of this type of capital-controlling management will ultimately penalize the members we strive to ensure are receiving as much of that capital as possible. I realize that no mathematical formula for risk-based capital will provide a perfect representation of a credit union's risk, but I believe the current examination process where examiners have the ability to enforce recommendations related to policies and procedures coupled with a more stringent risk-based capital requirement, that is objective, is enough.

**3. Liability component of Asset-Liability Management (ALM)**

One of the stated objectives of the proposed rule is to better address various types of risk including interest rate risk and liquidity risk. I agree that this is an important objective to have as part of a system of determining the appropriate level of capital a credit union should maintain. My concern is the proposed rule does not take into consideration the credit union's mitigation of these types of risks through specific liabilities, use of derivatives, and/or borrowing arrangements. You could have two credit unions with identical balance sheets on the asset-side, but may have an entirely different liability composition in order to protect against interest-rate risk. Those two credit unions could also have a completely different profile as it relates to borrowing arrangements that provide access to liquidity and therefore reduce exposure to liquidity risk. I believe there needs to be consideration of these factors and a system where credit unions could receive credits to be applied to their risk-weighted assets in relation to their risk-mitigating on-and-off balance sheet liability items.

I do appreciate the opportunity to provide my feedback on this proposed rule and am available if you have any questions or comments.

Respectfully,



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