United
FEDERAL CREDIT UNION

May 16, 2014

MAY19'14 PM 2:04 BOARD

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

Dear Mr. Poliquin:

On behalf of United Federal Credit Union, I would like to provide the following comment letter for the official record regarding the proposed risk-based capital rule that was approved by the National Credit Union Administration (NCUA) Board in January 2014. We appreciate the opportunity to present our thoughts on this far reaching regulatory proposal and to express our concern regarding four items that we anticipate causing the greatest negative impact on our credit union and membership if the proposed rule is finalized in its current form.

I applaud the Board's efforts to enhance risk sensitivity and establish a capital framework that considers a credit union's size and complexity. However, in our view the proposal as currently drafted fails to establish a stable, predictable, and objective capital framework. Section 702.105 would allow examiners to implement individual minimum capital requirements based on the examiner's subjective judgment grounded in agency expertise. Not only could basing capital levels on examiners' subjective judgment lead to inconsistent interpretation and application (and will likely be considered so by credit unions regardless of the circumstances), I very much doubt that the examiners will be able to dedicate the time to develop and achieve the level of familiarity with our membership that would be an appropriate substitute for management expertise for best fulfilling the needs of our membership. The process for review by the Board under Section 747.2006 does not alleviate these concerns. We strongly believe that this provision should be removed from the final regulation in its entirety.

I also struggle with the proposal to universally increase the risk-weight of our business loan portfolio. The proposal states that many of the largest losses to the NCUSIF occurred in credit unions with high concentrations of business loans. In reviewing the footnote for this statement, it also appears that several of those credit unions experienced a significant increase in concentration over a short period of time and maintained loan balances significantly above the statutory limit. While business loans can admittedly be riskier than other types of loans if not managed effectively (especially when management is inexperienced or controls are ineffective) this does not seem to warrant a universal increase in risk-weight - particularly for those credit unions such as ours that actively mitigate the risks incurred as has been validated by the performance of our portfolio over the past 10 years. Effective risk management should be incentivized without sacrificing earning opportunities for all credit unions. To that end, I recommend the proposal be revised to maintain the same risk-weight for all business loans at 100 percent, as it appears the Board's concerns regarding concentration could be addressed more appropriately using other methods of supervisory control.

Further, I agree that management is responsible for understanding the investments made and certain measures may be necessary to mitigate risks posed by failing to do so. However, Section 702.104(d) in its current form also adds unnecessary instability and subjectivity to the capital framework. The proposal fails to define the term "asset-backed investments", so it is uncertain as to which investments Section 702.104(d) might apply. It is conceivable that some investments may require more analysis under each of the four broad categories than others, allowing for subjective examiner judgment and the strong potential for inconsistent treatment. Evaluating management's understanding of an investment should not serve as a proxy to evaluate the risk of the investment itself, particularly since the determination that an investment

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is not adequately understood requires the credit union to adjust its asset allocation to hold capital equal to 100 percent of the investment's balance sheet value. In addition, though the Board expresses concern for credit unions' exclusive reliance on ratings issued by Nationally Recognized Statistical Organizations, this concern appears to have been previously addressed by the Board's final rule on alternatives to the use of credit ratings that was effective June 11, 2013.

Therefore, we recommend that GSE-issued asset-backed securities be weighted at 0.0 percent as are cash and US Government obligations. Other investments weighted on average life should never exceed 100 percent risk as the ability to lose more than the total amount of the investment – even under the most unlikely and extreme circumstance.

Neither the National Credit Union Share Insurance Fund nor our membership is served by our institution becoming insolvent, but allocating resources to capital restricts resource allocation to other areas, directly impacting what we can do for our membership. The ability to change the rules based on subjective judgment is likely to be extremely disruptive to both their short-term and long-term interests. Our management, held accountable by the fiduciary responsibility of the Board of Directors and overseen by both CPA opinion audits and ongoing NCUA examination, is in the best position to determine the appropriate balance to best serve our membership's needs if we can do so within a stable capital framework.

Thank you very much for the opportunity to comment on this proposal. Again, let me emphasize that I support the efforts of the NCUA to promote a balanced risk-based capital system which applies the need for additional capital to credit unions that carry higher risk without a proven risk management record while preserving the flexibility of those credit unions with effective risk management practices to make their own balance sheet decisions. I, along with our board, understand that planning for the future necessarily involves a myriad of uncertainties. We need a stable, objective capital framework within which to take measured business risks to achieve growth and continually improvement of our member services.

This proposal in its current form, challenges our ability to manage risk in every area by increasing regulatory instability and we believe it should be withdrawn if it cannot be perfected. In the event the proposal is not withdrawn, we strongly encourage the NCUA Board to reconsider revising the proposal to remove the provisions for individual minimum capital requirements and asset-backed investments, maintain the current risk-weight for member business loans, and consider both the short-term and long-term effects of the rule on the viability of our Credit Union and our ability to serve our membership. With the right changes, this rule could become a source of long-term viability of the credit union system.

If I can be a source of any further information on this comment letter, please do not hesitate to contact me.

Sincerely,

Gary Estey

Gary L. Easterling
President/CEO