Resource One
CREDIT UNION
Member owned. Not-for-profit.

May 15, 2014

MAY19'14 PM 1:37 BOARD

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

Re: Resource One Comments on Proposed Rule: PCA – Risk-Based Capital

Dear Mr. Poliquin:

Thank you for the opportunity to comment on the anticipated NCUA's capital standards. As CEO/President of the Resource One, this letter represents my views regarding the Risk-Based Capital Rule. Although commendable in theory, the proposal could possibly leave impeding outcomes. As it is currently being proposed, it constrains all credit unions from growth, ability to invest, and influences how consumer loans are assessed. I am fully on board with the risk-based capital concept for credit unions, but would like to voice my concern and offer the following comments with the intention of significant improvements:

The National Credit Union Administration has not demonstrated problems identified with current prompt corrective action (PCA) regulation. Credit unions have situated themselves to have the capability to withstand economic hardships. The RBC proposal is complicating the financial health of credit unions versus helping them.

The proposed agreeability date of year and a half is not sufficient time. Basel III permits banks five years to consent. Delay the authorization to December 31, 2017, permitting credit unions three years to prepare, strategize and adapt effectively.

Although the regulation has good intentions, the one-size-fits-all approach applies to categories of assets, is a major weakness. Credit unions are diverse and there should be standardization with the proposal.

The proposed RBC regulation uses risk weights to compensate interest rate risk with the investment risk weights. There are different proposed risk weights for investments based on the maturity levels of those investments. Although the risk weights would be fixed, the level of interest rate risk would vary depending on the economy.

The weightings for balance sheet items are significantly different than those required for banks by Basel III. The RBC proposal regulation seems to use restrictive percentages from Basel III while ignoring some standards that may be more liberal in other areas.

Additionally, consumer loans that are current are weighted 75% risk weight, while delinquent loans are at a 150% risk weight. There is no difference in weighting of type of consumer loan (unsecured verses secured) or generation source (direct versus indirect). The needs to be reassessed and better classified.

Applying a 250% risk-weight to a CUSO investment will restrict credit unions from continuing business with CUSOs. Contingent on the success of the CUSO, there should be a lower tier depending on the type of CUSO. For example a small investment service or Home & Life Insurance CUSO should be weighted less than one that deals in loan participation or other risky ventures.

An item in the proposal that is very troubling is the concept that an Examiner can arbitrarily increase the required capital that a credit union will need to maintain. The is particularly troubling considering that the proposal is already more stringent than the banks and allowing the Examiners to require additional capital could result in unrealistic and inconsistent capital guidelines with no ability to know how to measure that additional required capital.

Lastly, under the proposed timeline, credit unions looking to alter their investment portfolio due to the RBC method may be forced to sell investments at less advantageous terms. Based on the potential economic upswing, being penalized for investing in long term profitable investments seems to be onerous with the new proposal.

In summary, the Risk-Based Capital proposal can prove to be beneficial, but as it is written has technical flaws. I respectively ask that the NCUA carefully reassess and reconsider the proposed regulation. Thank you for your time and for allowing me to comment on the RBC proposal.

Sincerely,

Jim Brisendine

Jim Brisendine
CEO/President