Credit Union
"Serving the Community"

May 13, 2014

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

MAY19'14 PM 2:03 BOARD

Re: Risk Based Capital Proposal

Members of the Board:

The FAACU Board of Directors would like to commend you for recognizing that the implementation of Risk Based Capital (RBC) is a positive move for our industry. Every credit union's balance sheet is unique, and a risk based capital approach in calculating our net worth will be good for our industry. Credit unions who pose a greater threat to the NCUSIF should have to maintain higher capital and likewise for those credit unions who pose a lesser risk.

However, we do have some concerns that we would like for you to consider changing prior to implementing this regulation. We do not understand the rush for the short implementation date. We think you would be putting an undue burden on some CU's by the short implementation date. We have all been in a recessionary environment since 2009, and the low interest rate environment has taken its toll on earnings at all credit union levels. It is obvious that higher interest rates are on the way, and will provide some relief for compressed spreadsheets, but the improved earnings will not happen overnight. Please consider something more of a three year implementation period or longer.

We think the rule allowing an examiner to have discretion to increase RBC requirements is inconsistent with the rule itself, and has no basis. We have had plenty of meetings with the examination teams these past few years and worked to resolve many issues. However, we think a review by the regional office would at least be a minimum requirement rather than the whim of one person, or even a regional supervisor.

We do not understand the 250% risk weight given to all CUSO investments. We invest in an auto lot with several other credit unions and in a shared service center network since 1995 and we question the logic of the CUSO rule as it is proposed. We feel that less risky CUSO's should carry different risk weightings than more risky CUSO's, such as an MBL or indirect lending CUSO.

We think you should reconsider giving all consumer loans the same weighting factor—for example, shouldn't collateralized loans be considered less of a risk than unsecured loans? Mortgage loans, both first and second mortgages, should be weighted based on risk, and not necessarily on concentration.

P.O. Box 26406 Oklahoma City, Oklahoma 73126-0406 405.682.1990

FAA
Credit Union
"Serving the Community"

The Administration should reconsider the deduction of the NCUSIF Capitalization deposit from equity and from the assets denominator. The proposal implies that the deposit is worthless and should be expensed versus the current method of capitalization. The proposal can bring the accounting treatment into question and makes us look more like a bank. We believe that leaving the NCUSIF Capitalization deposit as an asset, assigning a risk weight, and removing the deduction from the net worth is the best option.

Weighting investments on years to maturity only captures potential interest rate risk and does not take into consideration the credit risk of the security purchased. We purchase almost all government backed securities and have considered them to be a safe investment and of very little credit risk. The proposed rule does not state if these are weighted at 0%. We have seen no default losses in GNMA, FNMA, and FHLMC during the past recession. We would recommend that a more detailed breakdown of securities be established within a portfolio and risk rated accordingly.

Thank you for your consideration. Please feel free to contact us if you have any questions regarding this matter.

Sincerely,

Judy Richey
Chairman of the Board

Terry Davidson
Vice-Chairman of the Board

Jessie McMullen
Treasurer of the Board

Virginia Hicks
Secretary of the Board

Phyllis Howard
Board Member

Ray Bradford
Board Member

Linda Lindsey
Board Member

P.O. Box 26406 Oklahoma City, Oklahoma 73126-0406 405.682.1990