America's First Federal Credit Union
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MAY19'14 PM 2:04 BOARD

May 8, 2014

Mr. Gerard Poliquin
Secretary to the NCUA Board
1775 Duke Street
Alexandria, VA 22314

Re: NCUA Risk-Based Capital Rule
America's First Federal Credit Union
Charter: 24534

Dear Mr. Poliquin,

I am writing on behalf of America's First Federal Credit Union in Birmingham, AL. America's First is a community chartered credit union that has been serving members for nearly 78 years. We currently serve 126,464 members through a network of 18 branch offices and have total assets of over $1.3 billion. We appreciate the opportunity to comment on the proposed risk-based capital rule. While the proposed rule does not adversely impact America's First today, as we are considered well-capitalized under the current guidelines, we are very concerned that the rule will curtail our strategic business plans and inhibit our ability to grow and serve our members.

I'd like to begin by saying that I do not believe there is a need for a risk-based capital standard to be applied uniformly to the entire credit union industry. History shows that credit unions, in general, have maintained average capital numbers well in excess of standards and certainly adequate enough to have weathered the most recent housing crisis and related economic turndown. In fact, prior to this past recession, some industry observers were airing concerns that perhaps credit unions were amassing too much capital. The current net-worth and related risk-based net worth standards accurately identified those credit unions whose balance sheet risk created hardships for them during the financial crisis. By the same token, those standards exonerated credit unions like America's First who had relatively little quantifiable balance sheet risk. Between 2007 and today, our lowest net-worth ratio was 9.38%.

Having stated my position with regards to the proposed regulation as a whole, let me address four specific components which I believe would have the most detrimental impact on our operations at America's First.

First, the proposed risk weightings for both CUSO investments and Member Business Loans (MBL's) appear unjustifiably punitive. America's First does not currently participate in any CUSO ventures and the proposed risk-weighting of 250% would likely deter us from considering such a venture, despite the fact that such a venture may be in the best interest of our members. Likewise, we do not currently offer MBL's, however, we are in the early stages of adopting an MBL program for our membership. The consequences, from a risk-based capital approach, will likely cause us to restrict our MBL offerings, to the detriment of our members. In both the CUSO and the MBL cases, I believe a weighting of no more than 100%, along with oversight through the established examination process, would be adequate. Further, I can see circumstances in both cases where a less than 100% weighting would be more than adequate.

Second, the risk weighting for current and non-delinquent first mortgages in excess of 35% of total assets is again punitive in nature and detrimentally impacts credit unions like America's First who have historically been strong mortgage lenders. Currently, our mortgage portfolio totals approximately 57% of total assets and has been as high as 61% of assets during the past 10 years. However, our mortgage portfolio consists of 55% fixed rate loans and 45% ARM's. Within the fixed rate portfolio, we do not originate or portfolio 25 or 30-year loans. The portfolio consists of 5, 7, 10, 15 and 20-year fixed rate loans and has an average duration of about 11 years. Under the current proposed rule, none of these factors would be taken into consideration when applying the risk weighting. So we would get no credit for employing the risk-mitigation tactics of ARM loans, diversification of terms, and not holding the longest term fixed rate loans in our portfolio. The current proposal would treat our entire portfolio as if it consisted of only 30-year, fixed rate loans.

Third, the treatment of investments under the proposed guideline is one-sided in that it only addresses interest rate risk by using duration-based risk weighting. No credit is given for the use of risk mitigation tactics such as variable-rate instruments or derivatives. Further, no consideration is given to investment portfolio size as compared to total assets. I would argue that a credit union whose primary service is lending and who strives to maintain a high loan-to-share ratio, would not add a material amount of risk by having a longer duration investment portfolio that accounted for 10%-20% of total assets. I would propose that the risk-weights assigned to the various weighted average lives (WAL) be reduced with minimal weighting given to the 0-5 year category. Cash on deposit and cash equivalents should have 0 (zero) weighting. Finally, risk-weights should only be applied to investment portfolios that exceed 20% of total assets.

Aside from the three areas mentioned above, I find most alarming the stipulation detailed in the proposed rule 703.105, which provides examiners the ability to require higher minimum risk-based capital ratios on a case by case basis. While I won't argue the legality of this, there is plenty of indication on the parts of industry advocates CUNA and NAFCU that the NCUA Board does not have the authority to institute individual capital requirements. This rule appears to act as a "catch-all" for NCUA by giving an examiner to ability to override the results of their own RBC guidelines and "pick" a number that they believe adequately addresses the risk they perceive in a credit union. This kind of autonomy on the part of an examiner is not warranted and should be removed from the proposed rule entirely.

As the Federal Credit Union Act stands today, the only way credit unions can build capital is through retained earnings. The impact of this proposed RBC rule on numerous facets of credit union operations will serve to reduce our ability to generate income and build capital. It will hurt, not enhance, our ability to serve our members. In the competitive financial services industry of today, we need regulations that reward and encourage sound business decisions, and that allow credit unions to serve their memberships. We need a regulator who will partner with us, not work against us, so that we can insure that credit union's like America's First can remain viable, competitive institutions for another 78 years and beyond.

Thank you for your time and consideration.

Sincerely,

William J. Connor
President and Chief Executive Officer

cc. Board of Directors, America's First