From:	Jill Gavin
To:	_Regulatory Comments
Subject:	PCA - Risk-Based Capital
Date:	Tuesday, May 20, 2014 7:05:56 PM
Attachments:	image006.png image008.png image009.png

May 20, 2014

VIA E-MAIL TRANSMISSION
regcomments@ncua.gov

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

Re: PCA – Risk-Based Capital

RIN 3133 – AD77

Dear Mr. Poliquin:

Thank you for the opportunity to comment on the Risk-Based Capital (RBC) proposal. AAEC is a state chartered, federally insured credit union in Arlington Heights, Illinois. As of March 31, 2014 we had $69 million in assets and 3,725 members.

While we support the NCUA's efforts in restructuring the capital requirements to more closely align with the standards of the banking industry, we are concerned that the proposed rule has not adequately substantiated the basis of the risk weights, as presented, or the impact such change will have on strategic growth and member service. If the rule applied today, AAEC would not be negatively affected; however, today is not our worry – it's the impact we will face in the future.

We offer the following comments, and ask for your consideration prior to conclusion of this rule:

Investments in CUSOs
The one-size-fits-all risk weight of 250% is excessive. Applying such a rate without investigating the operational health of a specific CUSO or the earnings the credit union realizes as a CUSO investor is unqualified, at best. Risk weighting based on the specific investment and financial success and operational ability of each CUSO is a rational approach.

Share Secured Loans
The credit union faces nominal, if any, risk on loans fully secured by shares. A sensible risk rate is 0% - 25%, rather than the proposed rate of 75%.

Mortgage Loans
As of this date, AAEC Credit Union holds no first mortgages on its books, but at 25% loan-to-share coupled with member demand, we are eager to offer this product. Unfortunately, we are concerned with the proposal that will apply a risk-weight of 100% on residential mortgages that
exceed 35% of assets. This action will negatively impact our service to members; we strongly suggest that NCUA follow the Basel III approach at 50%.

Examiner Subjectivity
The act of giving authority to examiners to impose additional capital on credit unions is wrought with bias. At a minimum, imposing additional capital should be supported within well-defined standards and reviewed by the regional office.

NCUSIF Deposit
Removing the NCUSIF deposit from both risk assets and capital implies that the deposit is of no value and should be expensed. We agree with the current NCUA stance - that the deposit is a valid credit union asset.

Finally, while the considerations above are not all-encompassing, they are relevant to our credit union and its future viability. We are concerned that this rule will hinder our ability to compete and limit our future blueprint of responsible growth.

Again, thank you for allowing us the opportunity to comment.

Sincerely,

Jill Gavin

Jill Gavin
President
AAEC Credit Union

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