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MAY21'14 PM 3:03 BOARD

May 12, 2014

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

Dear Mr. Poliquin:

We appreciate the opportunity to comment on the proposed changes to 12 CFR Parts 700, 701, 702, 703, 713, 723, and 747 Prompt Corrective Action; Risk-Based Capital. We agree that changes to the current Prompt Corrective Action regulations are necessary and that any revisions that become final should bring credit union regulations more in line with those of other Federal Banking Regulatory Agencies.

First Commonwealth Federal Credit Union is a financially strong cooperative located in the greater Lehigh Valley region of Pennsylvania. We provide financial services to 48,785 members with our network of six branches, online, and mobile banking platforms. We hold over $570 million in assets.

One of the main assertions of the NCUA in proposing the new RBC risk weightings is that it aligns a credit union's appetite for risk with their need to hold more capital. The problem with the execution of this idea in the proposed RBC rule is that a credit union's risk appetite is defined based on the limited information collected in the current call report. The proposed real estate and MBL calculations are most concerning in this regard because the term structures of the loans in question are not considered. If the goal of this regulation is to truly capture the risks embedded in credit union balance sheets then the structure of the call report must change accordingly.

Short of changing the call report, consideration could at least be given for information already collected. This consideration could for example be in the form of a risk weighting credit for real estate loans that will contractually reprice or mature within 5 years.

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Investment risk weightings in the proposed RBC rule diverge from Basel III risk weightings to the detriment of credit unions. Basel III assigns non-equity investments a 20% risk weighting while the proposed RBC rule assigns the 20% risk weighting to only those securities maturing in 1 year or less. We urge NCUA to consider bringing investment risk weightings in line with those of Basel III so that credit unions may be on equal competitive footing with banks.

Furthermore, the explanation in NCUA's second RBC rule informational video of a zero risk weighting for US Treasuries, stating they are a good place for credit unions to earn a return on excess liquidity, was simply out of touch with today's operating environment. If NCUA's concern is truly the marketability and liquidity of investments then there would be no differentiation of maturities for non-treasury investments but rather a weighting based on issuer. By assigning risk weights based on maturity NCUA has clearly telegraphed that the concern is interest rate risk, thereby contradicting their claims of US Treasuries being safe regardless of term structure.

The 250% risk weighting for investments in CUSOs is a baseless overreaction to certain failed CUSOs and the administration's desire to regulate by eliminating rather than managing risks. CUSOs serve a broad spectrum of different purposes and cannot be placed in one small box without regard for the risks they pose to the system. A punitive risk weighting on CUSOs will limit credit unions' ability to offer ancillary services and place us at a competitive disadvantage in our marketplace.

NCUA should be trying to work with credit unions to determine the risks different types of CUSOs pose to the system rather than trying to stymie growth by punishing credit unions for innovation and collaboration. This is another example where a simple change to the call report, adding a field with predetermined CUSO categories, would more accurately align risk weightings with the risks being taken in practice.

The implementation timeline for the proposed rule should be extended to reflect that of Basel III. The proposed changes will force many credit unions to restructure their balance sheets in order to meet capital standards. Because credit unions do not yet have access to supplemental capital they can only address one side of the balance sheet in an 18 month window. The forced sale of assets will drive prices of these assets down in the open market and force responsible credit unions to realize unnecessary losses to the ultimate detriment of their membership. A more responsible approach from a regulatory perspective would be a 5-7 year phase-in period to allow for a natural liquidation of long-term assets through maturities and selective sales.

Thank you for the opportunity to comment and offer suggestions to the proposed rule.
Sincerely,

John P. Miller, CFA
Chief Financial Officer
First Commonwealth FCU