APGFCU
Aberdeen Proving Ground Federal Credit Union
P.O. Box 1176, Aberdeen, MD 21001-6176

May 12, 2014

To: regcomments@ncua.gov

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

RE: Comments on Proposed Rule: PCA - Risk-Based Capital

Dear Mr. Poliquin:

Aberdeen Proving Ground Federal Credit Union (APGFCU) appreciates the opportunity to comment on the National Credit Union Administration (NCUA) Board's proposal to revise Prompt Corrective Action related to Risk-Based Capital. APGFCU serves Harford and Cecil counties with 106,000 members and $1.0 billion in assets. We agree that revisions of the current net worth risk requirements may be necessary so that credit unions with excessive risk in their balance sheets are properly identified. However, we believe the current Proposed Rule could have negative effects on APGFCU members and discourage investments in long term strategies. Under the proposed risk-based capital rule, APGFCU will see its well-capitalized buffer fall $1.2 million, from $20.3 million to $19.1 million. A proposal which results in loss of this buffer could impact our current business model as it relates to long term investment, lending and expansion strategies. These changes may negatively impact the member experience and make the credit union less competitive with competing financial institutions.

The revision of NCUA rules defining minimum capital requirements and Prompt Corrective Action makes sense given the 2007-2009 recession and Basel III. We believe this revision should take into consideration the unique characteristics and qualities of credit unions, the need to identify credit unions with excessive risk, and the need to create a risk-based standard that is comparable to Prompt Corrective Action systems that are employed by other Federal Banking Regulatory Agencies.

APGFCU is asking the NCUA to consider our comments which are outlined below:

1. **Several of the risk weightings under the Proposed Rule are inconsistent. Under the Proposed Rule, credit union risk weights would be higher than that of banks requiring credit unions to hold more capital than banks for the same assets. This is a major concern to APGFCU as it would place credit unions at a competitive pricing disadvantage in an already highly competitive marketplace. In addition, using higher risk weights on long-term assets to deal with interest rate risk is misleading without considering liability maturities.**

Cash Held at the Federal Reserve

APGFCU holds large amounts of cash at the Federal Reserve as a source of liquidity. Under the Proposed Rule, cash balances being held at the Federal Reserve are given a 20% risk weighting. Given that the Federal Reserve has been designated as a source for emergency liquidity for the entire credit union industry, there appears to be little risk in holding cash balances at the Federal Reserve. Under Basel III, central bank reserves are deemed to be highly liquid assets during a time of stress and carry a 0% risk weighting. **APGFCU believes cash balances being held at the Federal Reserve should be given a 0% risk weighting in the final version of the Rule.**

Investments

Under the Proposed Rule, investment risk weightings for credit unions are significantly higher than that of banks. All Treasury securities and those securities guaranteed by the NCUA or FDIC carry a 0% risk weight, no matter what the maturity. Other Agency backed securities with no credit risk, such as FMNA and Freddie Mac, are risk weighted based on their weighted average life. Investments with weighted average lives greater than 5 years are given punitive risk weights of 150% for 5 to 10 year average lives and 200% for average lives greater than 10 years. This compares to 20% risk weightings for similar securities in the banking model. In addition, a 30 year mortgage loan on our balance sheet would carry a 50% risk weighting while securitizing the same loan into a 30 year FNMA security, would carry a 150% risk weighting. **APGFCU believes the final version of the Rule should correct these inconsistencies.**

Real Estate Loans

Under the Proposed Rule, no distinction is made on the risk weightings assigned to mortgage loans of various maturity and repricing terms. A 30 year fixed rate mortgage gets the same risk weight as a 1 year adjustable rate mortgage and a 30 year fixed rate home equity loan gets the same risk weight as a variable rate home equity line of credit. APGFCU has implemented a fixed rate mortgage loan cap for loans with a maturity equal to or greater than 15 years to ensure that our balance sheet does not have excessive interest rate risk; therefore, the majority of our fixed rate mortgages are sold on the secondary market. In addition to those mortgages loans used to meet our cap, the remainder of the portfolio is fixed rate mortgages with terms less than 15 years and adjustable rate mortgages. As a result, our balance sheet is well positioned for a rising rate environment. Under the Proposed Rule, there would be no difference between APGFCU's capital requirement for its diverse mortgage portfolio and the capital requirements for a credit union that holds all 30 year mortgages in the balance sheet. **We believe that the capital requirement for adjustable rate mortgages and shorter maturity fixed rate mortgage loans should be lowered in the final version of the Rule to take into consideration the reduced risk associated with these adjustable and shorter term mortgage loan products.**

2. The NCUSIF deposit should not be deducted from the risk-based capital numerator.

The National Credit Union Share Insurance Fund 1% deposit is being ignored in the risk-based capital calculation. The NCUSIF deposit is a valid asset that can be refunded for various reasons including conversion to a bank or savings institution charter, and a credit union electing private insurance or voluntary liquidation. In addition, the deposit can specifically be attributable to a failed credit union providing an additional buffer against NCUSIF losses in addition to the failed credit union's capital. If a credit union did convert to a bank charter the NCUSIF deposit would immediately be included in the risk based capital numerator. **APGFCU recommends not deducting the NCUSIF deposit from the risk-based capital numerator.**

3. APGFCU has concerns regarding the examiner having the discretion to decide if a credit union needs a higher capital ratio, even if the calculation indicates the credit union is well capitalized.

The Proposed Rule gives the NCUA authority to require a higher minimum risk-based capital ratio for individual credit unions based on NCUA examiner expertise. This discretion could lead to unfair and inconsistent interpretation and application of the Rule. **APGFCU strongly recommends the elimination of individual minimum capital ratios from the final version of the Rule.**

4. The risk weight for mortgage servicing assets (MSAs) should be reduced under the Proposed Rule.

Rising interest rates and the potential negative impact on credit union earnings, is a major concern to the NCUA. APGFCU has been selling fixed rate mortgage loans with a term greater than 15 years in excess of our cap to reduce interest rate risk in the balance sheet. The value of our MSAs will increase in a rising rate environment as prepayments slow and the average life on the sold mortgages extends. We also realize that MSAs become impaired when interest rates fall and borrowers refinance or prepay their mortgages; however, in a low interest rate environment, this impairment is typically offset by increased gains on the sale of mortgages as occurred at APGFCU during the last several years. **We believe a 250 percent risk weighting on MSAs is too high and creates less incentive to build the servicing portfolio, which helps protect the credit union's earnings in a rising rate environment.**

5. Consideration should be given to increasing the 1.25% allowance for loan losses limit that can be added to the numerator should FASB adopt the Current Expected Credit Loss model.

It is believed that FASB's proposed new standard on the allowance will significantly increase reserves at credit unions. **APGFCU believes that more of this required allowance should count towards capital should the higher standard be adopted in the near future.**

APGFCU is respectfully requesting NCUA to carefully weigh our comments and to pursue the appropriate amendments to this rule. This will ensure a viable, well-balanced risk-based capital system is implemented.

Thank you for the opportunity to comment on the Proposed Rule and for listening to APGFCU's concerns. Please feel free to contact me with any questions or comments regarding our comments on the Proposed Rule.

Sincerely,

Carol L. McBrien
Senior Vice President of Finance/Chief Financial Officer