Listerhill
CREDIT UNION

May 20, 2014

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

Re: RIN 3133-AD77, NCUA Prompt Corrective Action – Risk-Based Capital, Proposed Rule

Dear Mr. Poliquin,

On behalf of the over 80,000 members of Listerhill Credit Union located primarily in Alabama and Tennessee we appreciate the opportunity to submit comments on the proposed changes to NCUA's capital standards. Currently, Listerhill Credit Union is a high performer within the industry; however, the Management and Directors of Listerhill Credit Union believe the proposed rule will be detrimental to our existing strategic vision and harmful to the credit union movement.

Our concerns with the NCUA's proposed capital rules are varied:

- **Lack of Justification for the New Rule** - The rule is not justified since the industry has just weathered the worst financial storm since the Depression and is well-capitalized under existing rules;
- **Statutory Authority** - The proposed rule allows arbitrary authority to the NCUA to impose higher capital requirements than established well-capitalized levels within the proposed rule;
- **Inappropriate Risk Weightings** - The risk weightings in the proposed rule are not appropriate for credit unions;
- **Interest Rate Risk Management** - The risk weightings in the proposed rule are contradictory to certain aspects of appropriate management of interest rate risk;
- **Timing** - More time is needed to comment, assess, and phase in the proposed rule.

Lack of Justification for the New Rule

Over the past 6-years the total ratio of net worth to assets of the credit union industry has only decreased .69% to 10.78% at December 31, 2013, from 11.47% at December 31, 2007; all while dealing with the worst economic conditions since the Depression. Listerhill Credit Union was able to grow net worth during this same timeframe from 10.24% to 10.54%. The industry clearly demonstrated the ability to absorb catastrophic loss during the recent economic turmoil under existing regulations; therefore, the need for such significant changes in our capital structure

P.O. Box 566 • Sheffield, Alabama 35660 • Telephone: (256) 383-9204 • FAX (256) 314-6502

within a relatively short timeframe and to the magnitude of the proposed changes seems unwarranted.

Statutory Authority

The Federal Credit Union Act requires the NCUA to consider the unique characteristics of credit unions in the establishment of a risk-based net worth rule; however, the result is risk weightings more stringent than Basel risk weightings for banks of similar size. Listerhill Credit Union feels any proposed capital standards should address the burden credit unions have in only being able to build capital through ongoing earnings, as opposed to the banking industry's ability go directly to capital markets.

The proposed rules will alter Listerhill Credit Union's future decisions for asset concentrations in mortgage loans, member business loans, securities investments, CUSO's, and various capital investments in corporate credit unions. We will have to accept diminished future returns based on the required changes to concentrations on our future balance sheet, as we seek shorten asset lives in pursuit of excessive capital requirements.

A side-by-side comparison with Basel standards for banks reveals a more stringent capital standard for credit unions resulting from the proposed rule. The final rule should at least be no more rigorous than Basel standards; but actually should recognize the distinct differences between credit unions and banks, with an understanding on the limitation of credit union ability to build capital over time through earnings.

Inappropriate Risk Weightings

The comparison of risk-weightings in the proposed rule to Basel standards reveals an onerous burden on credit union balance sheets. The proposed rule's inclusion of escalating risk weights built into various asset classes, such as mortgage loan concentrations and investment maturities, are not appropriate tools to minimize interest rate risk, much less to expose credit unions' capital to higher standards than our banking competitors. The risk weights for mortgage loans and investments should be no higher than standards for banks, with appropriate regulatory analysis on overall interest rate risk management within the individual credit union.

We believe a similar stance is appropriate for the step-up weightings for concentrations related to Member Business Loans (MBL's), since the proposed rule again calls for a more burdensome treatment of capital for credit unions than banks as concentrations increase on the balance sheet. The risk weights for MBL's should be no higher than standards for banks, in tandem with applicable regulatory scrutiny on risk management of MBL's within the credit union.

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As the proposed rule stands the risk weighting for CUSO's at 250% versus the bank standard of 100% is unacceptable. The variety of services delivered by most credit unions through their CUSO's is a function of legal protection of assets, along with access to markets or expertise. The extreme level of risk weighting in the proposed rule could cause some credit unions to bring various services and risk back onto their own balance sheet directly, and abandoning legal protections or valuable service offerings to their membership. Once again, we suggest the sufficient capital standards be no greater for credit unions than banks along with the regulatory examination process and review of all CUSO investments.

Interest Rate Risk Management

We have significant concerns with how the proposed rule addresses interest rate risk over different asset types on an inconsistent basis. As proposed the rule does not properly evaluate the inherent differences for asset types relative to credit and interest rate risk, in addition to not addressing risk concerns for amortizing versus non-amortizing assets, or fixed versus adjusting rates within various pools of loans or investments.

Within the proposed rule, the risk weight of 0% given to a 10-year Treasury clearly understates the intrinsic interest rate risk of the Treasury. Further, a 30-year mortgage would carry a proposed risk weighting of .50%, and a GSE issued security with a weighted average life of 7 years would have a risk weighting of 1.50%; however, there is no distinction for the amount of credit risk or interest rate risk given to either asset class. The relatively small amount of actual credit risk in the GSE weighted at 1.50% would seem to indicate a much greater interest rate risk lies with the GSE versus the 30-year mortgage risk weighted at .50%.

Any final rule should not attempt to minimize interest rate risk within various asset classes without also addressing the liability side of the balance sheet; including the unique mix of deposits within credit unions, such as a high concentration of non-maturity deposits. At a minimum, the final rule should be amended to be no more restrictive than Basel standards for banks for assets such as mortgage loans and investments.

Timing

The credit union industry suffered numerous losses since 2007; however, the share insurance fund remained sound and existing regulations and capital standards were sufficient. Although the existing capital standards and prompt corrective action definitions were appropriate, we do support the concept of change from our current prompt corrective action standards to a more comprehensive risk-based capital framework. But this change should only take place after an appropriate assessment, comment and time for implementation of change in standards. The call for an 18-month implementation of the new rule should be replaced by a minimum period of 30 or 36 months.

Conclusion

We understand the need for a capital framework that addresses major risk categories such as credit, concentration and interest rate risks; however, the proposed rule does not seem to address the unique structure of credit unions' balance sheets, our ability to generate additional capital only through earnings, and the need to implement any new rule in an appropriate timeframe.

We appreciate the opportunity to comment on this proposed regulatory change.

Sincerely,

Clay Morgan

Clay Morgan
Chief Financial Officer

cc: Honorable Robert B. Aderholt, Alabama 4th District
Honorable Mo Brooks, Alabama 5th District
Honorable Richard Shelby, Alabama
Honorable Jeff Sessions, Alabama
Honorable Scott DesJarlais, Tennessee 4th District
Honorable Marsha Blackburn, Tennessee 7th District
Honorable Lamar Alexander, Tennessee
Honorable Bob Corker, Tennessee
Mr. Lloyd Moore, Acting Administrator, Alabama Credit Union Administration