FIBERGLAS
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May 23, 2014

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

RE: RIN 3113-AD77 - Comment on Proposed Prompt Corrective Action – Risk Based Capital Rule

Dear Mr. Poliquin:

This comment letter represents the views of Fiberglas Federal Credit Union (FFCU) on the proposed Risk Based Capital regulation. By way of background, FFCU is a $120 million federal credit union located in Newark, Ohio. We serve 225 select employee groups, which is approximately 13,500 members. We offer a wide variety of products and services to help further the financial well-being of our membership. We are commenting on this regulation in hopes the agency will reconsider portions, if not all, of the proposed regulation.

Complex Credit Union

The definition of a complex credit union, per this regulation, is defined as any credit union over $50 million in assets. We feel this definition is vague and arbitrary. Larger asset size does not always constitute higher risk. As a credit union grows, it tends to offer more products and services; however, its risks do not necessarily increase in parallel. We ask NCUA to consider an enhanced and more complete definition of a complex credit union.

Examiner's Subjectivity

Examiners should not have the ability to arbitrarily change the calculation structure of the risk based capital requirements based on their individual opinions and assumptions. We are asking NCUA to fully remove this section of the regulation. Although training can enhance examiners' understanding of the RBC rule and improve consistency throughout the examiners, it cannot

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ensure full consistency in regulating this rule. Building this subjectivity into the rule will generate inconsistency in the enforcement of the rule throughout the country.

Risk Weight Review

We are asking NCUA to revisit and evaluate the risk rating system that has been proposed. Each individual risk weight should be reviewed, evaluated, researched, and reported on in order to substantiate the risk rating. We do not believe NCUA provided any appropriate rationale for its risk weighting system. The following are a few examples of risk weights we feel pose the most significant concerns:

Delinquencies

In accordance with GAAP, credit unions are required to reserve for potential losses within their loan portfolio. Adding additional weight components to delinquent loans does not take into account that these loans are already reserved for within the Allowance account.

Interest Rate Risk

This proposal does not properly address interest rate risk. As a stated objective of the rule, it is clearly not taken into account in an effective manner. For example, NCUA gave Treasuries a zero risk rating. Although this may be an effective risk weight for the credit risk of this investment, it does not properly quantify the long term interest rate risk associated with Treasuries. This specifically shows NCUA placed greater priority on credit and liquidity risk opposed to the long term interest rate risk. Therefore, if FFCU should choose to invest in a substantial amount of 10 year treasuries; our risk based capital requirement would not be impacted; however, FFCU's long term interest rate risk would be significantly affected. This is a major flaw in the regulation.

The second area that is of concern is the ability to use risk weightings based on weighted average life for mortgage backed securities (MBS). Doing so does not take into account the extension risk which can occur within these investments. Further, this regulation does not take into account the differences between fixed rate investments and variable rate investments, as it gives both categories the same risk weightings.

We are asking NCUA to research, report, and provide transparency on how the risk weights were analyzed and developed prior to approval of the final rule.

Liability Management

This regulation does not take into account liability management, which is a key component of managing balance sheet risks. One of the most effective ways to manage interest rate and liquidity risks is to have a good liability management program, which could include long term borrowings and adequate management of its share accounts. Again, a primary requirement of this rule is to address interest rate and liquidity management; therefore, we ask NCUA to reconsider and review the need to address and properly account for the liability side of the balance sheet.

Example

NCUA is implying the following two loans carry the exact same risk weighting:

- $25,000 "D" paper unsecured credit loan with a rate of 1.99%
- $25,000 "A" paper auto loan at 1.99%

As a risk manager, I do not believe these two loans should be given the same risk weighting. They pose very different risks. The "D" paper loan poses a much more significant credit risk than the "A" paper loan.

We feel NCUA needs to take appropriate measures to ensure the regulation is re-written in a manner that addresses the requirements of the rule. This comment letter has demonstrated but a few of the examples of instances indicating that interest rate, credit, and liquidity risks cannot be properly measured within this regulation. We also ask NCUA to extend the implementation period due to the complex strategic planning involved with changing balance sheet structures to facilitate compliance with this rigorous rule.

We hope, that should NCUA move forward with this rule, that significant research and evaluation will be conducted to ensure the regulation does not place a long term negative burden on the credit union industry. NCUA needs to ensure transparency of the data it has reviewed, and allow the industry to see the support of all components. We also ask for a second round of comments once the revisions have been made. This will allow for additional insight and industry review of the rule before final approval. We appreciate the NCUA's willingness to allow us to comment on this very important regulation.

Sincerely,

Trisha Clark

Trisha Clark
Director of Risk Management
Fiberglas Federal Credit Union