First Federal Credit Union

May 21, 2014

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

RE: Prompt Corrective Action – Risk Based Capital

Dear Mr. Poliquin

First Federal Credit Union is a federally chartered credit union with $112 million in assets serving over 7,500 members in Linn County (Cedar Rapids), Iowa. My comments reflect the concerns of our Board of Directors and the executive management team of First Federal. The NCUA has issued proposed revisions to its risk-based capital standards; while there are certain aspects of the proposal that are positive, the overall proposal contains numerous objectionable components that deserve a strong response. Our objection to the proposal can be categorized into the following five areas:

1. **Competitive disadvantage.** The credit union requirements, as proposed, are much more restrictive and punitive than the standardized Basel III framework for commercial banks. The proposed methodology will generally require much higher capital levels for credit unions in relation to our commercial bank competitors. For example, our credit union has for over 87 years met our member's needs through the origination of first mortgage loans. Our loan portfolio has a heavier concentration of residential mortgages (greater than 35% of assets) and will be required to hold twice the amount of capital (100% weighting in the proposal vs. 50% weighting for banks) for these assets as our bank competitors in our market. The resulting unintended consequence will be to restrict access to affordable mortgage loans for credit union members. This is a distinct and obvious disadvantage for credit unions.

2. **Risk-Weighting of Assets.** Under the proposal, the risk-weightings are based entirely on the weighted average life of the investment and disregard other stated objectives of the proposal that impact balance sheet strategies. Several notable examples can be cited:

   - Treasury bills and U.S. government obligations have a 0% risk weighting, but a deposit in the Federal Reserve, has a 20% risk weighting.
   - A portfolio of 30-year, first mortgages with less than 25% of assets has a risk weight of 50%. The same asset class purchased in a Fannie or Freddie security with a weighted average life of five to 10 years is risk-weighted as an investment at 150% even though there is no default risk.

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- A member business loan with a seven-year balloon maturity and with MBLs less than 15% of assets is assigned a 100% risk weight. A seven-year bullet agency security with no credit risk is assigned a 150% weight

The proposed risk-weights are inconsistent in meeting the objectives of the proposal and will result in credit unions foregoing organic growth of earnings (and therefore, capital) due to the restrictions imposed through the onerous risk-weighting.

3. **Limiting the Allowance for Loan and Leases Losses (ALLL) in the numerator to 1.25% of assets.** First Federal has worked diligently to analyze the risks in our loan portfolio and has adequately reserved for those risks. In our specific case, the proper level of ALLL is greater than 1.25% of assets. By excluding the amount above 1.25% , the proposal is implicitly encouraging credit unions to "cap" their ALLL at the 1.25% level and therefore ignoring the responsibility to develop the ALLL based on portfolio risk.

4. **NCUA unilateral authority to impose higher capital requirements on individual credit unions.** Without clearly defining what circumstances, metrics, or regulatory concerns are present, the proposal would allow NCUA examiners to dictate higher capital levels, even if that credit union is already well capitalized. This provision is clearly subjective and places NCUA examiners in a position to exercise excessive authority without a defined basis. While not objecting to the concept that certain credit unions should be held to higher capital standards based on their overall risk profile, the proposal should provide clearer definitions of when these standards should be considered.

5. **Implementation time frame.** The proposal would require an 18 – month implementation phase. This shorter implementation period is less than Basel III requirements for commercial banks. Credit unions should be afforded the opportunity to properly assess the various impact the final rule will have, create strategic plans in anticipation of the changes, and implement those strategies over a similar time period as commercial bank counterparts. I would suggest a 3-5 year implementation period.

On behalf of the directors and management of First Federal Credit Union, I respectfully request the NCUA amend its proposed Risk Based Capital rules in order to satisfy the stated objections.

Respectfully submitted,

C. Thomas Chalstrom
President & CEO

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May 20, 2014

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

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

Dear Mr. Poliquin:

Thank you for the opportunity to respond to the proposed risk-based capital rule. Although I understand the NCUA's position and the need for each credit union to maintain adequate net worth relative to its aggregate risk level, there are components of the proposal that seem overly conservative and even counter intuitive.

Since the concerns of the proposed changes have already been categorically and thoroughly addressed in numerous credit union letters from other Chief Executive Officers and communications from the Credit Union National Association, I support and simply reiterate that the focuses in need of reconsideration include the overall justification of the rule, the risk weightings (especially member business loans and mortgages as well as CUSO investments), the ability of NCUA to impose higher capital requirements on individual credit unions, and the very short, 18-month implementation period of the new rules.

Although continued focus on the strength and sustainability of the share insurance fund and the credit union industry overall is critical, the proposed approach could have adverse impact on the industry and its ability to be competitive and continue to serve the 37,000 members of HealthCare Associates and many other credit union members nationwide.

Thank you again, and please contact me should you have any questions or comments pertaining to this response.

Sincerely,

Joseph J. Kregul
President & CEO

cc: HACU Board of Directors