FirstFinancial
CREDIT UNION

5/27/14

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

RE: PCA – Risk-Based Capital

Dear Mr. Poliquin,

On behalf of the Board, Staff and Members of First Financial Credit Union, I would like to thank you and the NCUA Board for giving credit unions the opportunity to comment on the proposed risk-based capital rule. I applaud NCUA for taking steps to address the weaknesses of the current risk-based net worth approach and support the implementation of a risk-based capital structure.

However, there are some necessary changes needed to the proposed rule. I request that NCUA makes the following changes to the proposed risk-based capitalization rule.

1. The NCUSIF deposit is the fundamental example of a cooperative system, and the reason why credit unions have remained collectively strong in the recent economic downturn. By applying a mathematical formula that will subtract the NCUSIF deposit from the Reserves and the Assets will only serve to decrease the stated ratio and give the impression of less financial strength for the credit union. This will have a negative long-term impact on the credit union movement's ability to compete in the financial services marketplace. Pressure to improve capital with an increased bottom line will cause small to mid-size credit unions to return less to their members, and potentially abandon the people helping people philosophy.
2. The proposed rule gives NCUA examiners the ability to impose higher capital requirements on individual credit unions. Consistency and independent analysis are crucial in cases where higher capital requirements may be needed. Authority to impose higher capital requirements should not be done at the examiner level. If needed it should be handled by a higher level at NCUA.
3. The proposed risk weight for share-secured loans is 75%. Because these loans are fully-secured, they should carry a risk weight of 0%.
4. The investment reserve percentage in the proposal does not distinguish between funds at the Federal Reserve and funds at a corporate credit union. Since the risk profiles are quite different, they should be assigned risk rates accordingly.
5. CUSO's are an important investment for credit unions in their ability to serve members. Smaller CU's can take advantage of the economies of scale created by an organization governed by credit unions. Requiring a 250% reserve in the CUSO investment will lessen the financial benefits to credit unions and their members, potentially leading to disaffiliation with the CUSO, and will provide a competitive advantage to non-CUSO entities that are generally driven by

profits, contrary to the CU Philosophy. The reserve required for a CUSO should be based on the varying business factors of each CUSO, and at a risk weight of 100% or less.

6. It is duplicative to require additional reserves against delinquent loans when already reserved and accounted for with the Allowance for Loan & Lease Loss Calculation. Additionally, no clarity has been provided as to why the allowance for loan loss account is only applied to 1.25% of outstanding loans. Credit Unions are conservative by nature, and these additional reserves seem excessive.

In conclusion, we support the idea of a risk-based approach to determining capital, but feel the rule as proposed has significant flaws. The Board, Staff, members and I hope that you will take these points into consideration before finalizing the proposal.

The end result of the proposed rule will be slower growth for the credit union economy, as credit unions will feel pressure to increase their bottom line to meet capital requirements, ultimately leaving them unable to put money back into their members' pockets and their communities.

Our movement was able to survive the most recent recession, and fared better than banks. Yet the proposed rule includes many capital requirements that are significantly higher than the Basel standards accepted in the global banking system. Credit Unions hold a very small percentage of the overall market share of consumers' financial assets, and the proposed rule would add another competitive disadvantage.

Sincerely,

Patrick Basler

Patrick J. Basler
President/CEO
First Financial Credit Union
2842 W Peterson Ave, Chicago, IL
$70M in Assets
8,500 members

cc: Board of Directors