PrimeWay
FEDERAL CREDIT UNION

May 27, 2014

Mr. Gerard Poliquin, Secretary to the Board
National Credit Union Administration

Dear Mr. Poliquin:

I would like to contribute the following comments to the Risk-Based Capital Proposed Rule on behalf of PrimeWay FCU. We are in agreement that capital requirements must consider the risks individual credit unions assume on their balance sheet through their day-to-day decisions. However, PrimeWay FCU has serious concerns about the details in the proposal. We would like to respectfully address the following concerns and offer possible improvements to the regulation in these specific areas:

Goodwill
Removing Goodwill will negatively impact credit unions by not allowing them to realize the previously accounted for benefit. A merger often assists the NCUA and the NCUSIF assuming the burden of a failing institution. A credit union's transaction consideration is based on the accounting treatment as determined by a qualified C.P.A. firm using Generally Accepted Accounting Principles. Removing Goodwill will not only remove incentive to enter into future mergers, it will remove the benefit realized under the original terms of the transaction. Goodwill should be added back into the numerator for the Risk-Based Capital Ratio.

Investments
It is my understanding that the risk-weights on investments used by other US Regulators vary by the issuers or guarantors of the investments. This proposed rule does not account for the conscientious decision to consider the safety and soundness of the issuer. US Government Obligations carry a 0% risk-weight in the proposed rule. However Fannie, Freddie, Ginny and SBA investments are assumed to be non-US Treasury. This differentiation requires clarification in the final rule. The principal and interest for these obligations are guaranteed and the risk-weight should accordingly reflect this risk mitigation.

In addition, the current risk-weights do not accurately reflect the interest rate risk for short-term and medium-term investments such as those under a 5-year maturity.

Loans

Real Estate Loans

I also understand that the risk weights to other financial institutions generally do not increase with asset concentrations. Data shows that Credit Union Real Estate portfolios contain less risky, alternative or troublesome characteristics than portfolios of other financial institution types. Credit Unions should not be held to a different standard

The risk is not only determined by the concentration, but the credit risks of the portfolio. The proposal does not address Loan-to-Value ratios or performance quality, two vital risk indicators. Credits should be awarded for low charge off and delinquency portfolios and/or for lower portfolio LTV ratios.

Commercial Loans

The rule should measure risk, and past performance history is a measure of that risk. Any final rule should give credit to institutions with strong quality ratios surrounding business lending.

Consumer Loans

The proposed rule does not differentiate secured vs. unsecured loans. The rule should be designed to reflect risk in portfolios. Security decreases risk. Secured portfolios should be assigned a different risk-weight. Additionally, a credit should be provided for low charge off and delinquency portfolios.

CUSOs

The 250% risk-weight is arbitrary lacking sufficient rationale, and does not reflect the actual risk on investing in CUSOs. A well performing seasoned CUSO helps the industry and poses no risk. This risk-weight will negatively impact beneficial collaborative efforts. CUSO Investments should be risk-weighted at 100%.

Retirement Assets

The original calculator classified retirement assets in Category 8 (200%). Recent Call Report changes moved these on the Call Report under Other Assets, which is in Category 5 (100%). However the impact on the Risk-Based Capital calculation was silent. These assets are carried at Market Value on PrimeWay's books. All are liquid and most are in mutual funds. This does not represent a risk worthy of a 200% risk-weight. Retirement assets should be risk-weighted at 100%.

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Implementation Period

Implementation of the proposed rule may require efforts to restructure balance sheets. The 18-month proposed implementation time period is not nearly enough time for credit unions to make appropriate changes to their balance sheet in a safe and sound manner. A 3-year implementation period is a more appropriate time frame to restructure where necessary.

In closing, we appreciate your willingness to allow PrimeWay FCU to comment on this important regulatory proposal. We respectfully and strongly encourage you to consider possible improvements to the Risk-Based Capital Rule in accordance with our recommendations included in this comment letter. The strength, safety, soundness and long term viability of the credit union industry will be impacted by the capital structure under which we operate in the years and decades to come. It is crucial that any changes to the credit union capital system be appropriate to the risk and balanced with the ability to effectively manage that risk. If I can be a source of any further information about this matter, please feel free to contact me.

Sincerely,

T. Scott Kreinbring
EVP - CFO

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