May 28, 2014

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

RE: Comments on Proposed Rule: PCA—Risk-Based Capital identified by RIN 3133–AD77

Dear Mr. Poliquin,

We appreciate the opportunity to comment on the Risk-based capital proposed regulation. First Atlantic Federal Credit Union, located in Eatontown, NJ serves approximately 25,000 members and has a total asset size of $220million.

Although we agree with the overall concept behind the proposed revisions; we do believe that some adjustments are warranted and other considerations should be factored into the calculation. Our comments/concerns are as follows:

Risk-weight category – Category 2

Cash on deposit, which includes balances on deposit in insured financial institutions and deposits in transit and include overnight accounts, daily accounts, money market accounts, and checking accounts were given a risk weight of 20%.

The Risk-weight of 20% should be removed and changed to 0% for Category 2 as these deposits are insured up to $250,000 and are generally risk-free. Any funds exceeding the $250,000 may be addressed separately.

Risk-based Capital Ratio Numerator

The NCUSIF deposit should be included in the numerator as it is a valid asset. It is a source that can be offset against any NCUSIF losses. As such, it should not be eliminated from the numerator.

Risk-Weights for On-Balance Sheet Assets - Investments

The risk weighting based on credit risk utilized by the banking industry should be used for credit union investments as they are more reflective of the credit risks inherent in the investments.

Risk Weightings for Real Estate Loans and MBLs

The risk weightings for mortgage loans seem to be combining risk weighted capital with concentration risk. It further does not consider their loan to value, which would be more appropriate. These should be further evaluated and refined.

Risk Weightings for MBLs

The risk weighting for MBLs are not appropriate and should be lowered.
These loans are generally secured by commercial real estate. The loan portfolio should be further evaluated and refined based on the overall loan performance. Factors; such as LTV, delinquencies and overall performance should be factored into the risk weighting.

CUSO Risk Weighting

CUSOs are credit union owned set up to serve its credit unions, normally with a focus on either generating income or lowering operating expenses. Most are very well run providing exceptional services to credit unions that couldn't do it on their own. Forcing a change will drive up costs by encouraging 3rd party vendors with significantly different profit motives to enter the market. The risk weighting factor of 250% seems excessive. This should be further evaluated and possibly tiered based on the overall performance of the CUSO.

Loans sold with recourse

Since these loans are reported on the Call Report at a total dollar amount of those loans another line should be added to report the actual dollars subject to recourse. If not, this item can significantly reduce the risk-based capital of the credit union, without capturing the actual true risk. This measure should be further adjusted based on the worst case scenario loss (actual dollars subject to recourse).

Individual Minimum Capital Requirement (IMCR)

Any regulation that gives a regulatory body complete discretion to move the capital requirements based on an individual examiners recommendation is inappropriate. This portion of the rule is arbitrary and needs to be removed in its entirety. Credit unions should be judged on a level playing field and not at the discretion of individual examiners.

Implementation Period

An 18 month implementation for these new capital requirements is not practical for credit unions to adapt and raise capital, if needed, to comply. Credit unions can only raise capital through earnings and 18 months is not adequate. It is my understanding that with the banks,

the BASEL 3 implementation period is a 5 year window, and they have the ability to raise capital. An implementation period of 5 – 8 years should be further evaluated and considered.

Thank you for the opportunity to comment on this proposed rule and for considering our views on risk-based capital requirements.

Sincerely,

Ann Goldinak, CPA, MBA
SVP & CFO, First Atlantic Federal Credit Union
Eatontown, NJ