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May 27, 2014

Dear Mr. Poliquin:

On behalf of United SA Federal Credit Union, I would like to offer the following comment letter on the recent NCUA proposed Risk Based Capital rule. Our Credit Union recognizes the need for a well balanced and specific set of capital standards as an alternative to the current net worth standard that specifies 7% net worth to be well-capitalized; however we have concerns about the proposed Risk Based Capital rule that we feel must be addressed or the result could be a less workable capital standard putting us at a competitive disadvantage to our competitors. We would like to respectfully address the concerns and offer possible improvements to the regulation in the following specific areas:

- Current one-size-fits-all 7% PCA net worth standard still required by law – no relief, only an additional regulatory standard on top of statutory PCA standard
- No credit is provided for performance in mortgage loan or MBL asset categories
- Performing consumer loans with collateral (autos, etc.) should have lower risk weight than unsecured consumer loans
- Risk weighting for mortgage loans and MBLs totally concentration based – no mitigating factor for LTV, credit rating or performance
- CUSO investment at 250% seems arbitrary (recent CUSO rule based upon uncertainty by NCUA over CUSO risk)
- 250% CUSO investment weight is on current value of CUSO investment, penalizing growth in investment value
- No recognition in risk weighting of different types of CUSOs (lending, operational, profit centered, saving centered) – type defines the risk parameters
- Mortgage servicing rights – two accounting methods (fair value and amortization methods) should not be treated with same risk weight (amortization much more conservative)
- Examiner discretion is a major flaw, creating a subjective goal line that can change and will be impossible to manage by CU management and the Board

Headquarters 5500 UTSA Boulevard • San Antonio, Texas 78249-1622 • (210) 561-4500 • 1-800-531-8456

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- Credit risk (both positive and negative), along with liquidity and performance of assets are not effectively incorporated
- 18 month implementation time table does not allow sufficient time for credit unions to adjust balance sheet to effectively comply

The following are some possible improvements to the rule:

- 9% Risk Based Capital Ratio to be considered well capitalized (Basel community bank at 6% risk based, just up from 4%)
- Incorporate credit risk performance in MBLs and mortgages – 50 bps reduction in each concentration category if CU charge off rate is below 2% on a five year average
- CUSO risk weighting should be at 100% rather than 250% as CUSOs promote collaboration and risk sharing; we have been successful and risk can be managed through NCUA credit union examination/supervision authority
- Mortgage servicing should have additional Call Report question as to accounting method used and those credit unions using amortization method at 100% and fair value at 150% - would no longer allow the 250% proposed rating to discourage risk management through secondary market and loan participations, plus encourages more conservative accounting treatment
- Paid-In Capital at corporate credit unions should be weighted at 150%, recognizing that there is some risk as proven by the corporate crisis, but not so high at 200% that it discourages corporate capital building under the new corporate credit union rules and adversely impacts NCUSIF
- Remove subjective examiner discretion to increase required Risk Based Capital Ratio beyond 10.5% as too subject to arbitrary determinations and inconsistency of application. It is critical for credit unions to know concretely what their regulatory capital expectations are and to be able to manage to a specific number
- Delay effective date until December 31, 2017, providing three full years (assuming a 2014 regulation approval date) for credit unions to prepare and adjust their balance sheets effectively and with strategic planning

In closing, we appreciate your willingness to allow United SA Federal Credit Union 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.

Respectfully,

Felix Gonzalez - Interim President/CEO
United SA Federal Credit Union