



May 27, 2014

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

Sent via e-mail to: [regcomments@ncua.gov](mailto:regcomments@ncua.gov)

RE: AAFES Federal Credit Union Comments on Proposed Rule:  
PCA – Risk-Based Capital (RBC)

Dear Mr. Poliquin:

This letter contains my views as Board Chairman of the AAFES Federal Credit Union regarding NCUA's proposed rule on PCA –Risk-Based Capital. AAFES Federal Credit Union (AFCU) is located in Dallas, Texas and serves employees and contractors of the Army Air Force Exchange Service (AAFES) as well those of the Dart Container Plant, also located in Dallas. We have over 6,800 members and \$91 Million in assets. The NCUA proposal raises several concerns that the AFCU Board feels must be addressed before the rule is adopted in its final form.

Of particular concern to AAFES Federal Credit Union are the following elements of the proposal:

- 1) Negative impact on the Credit Union and its membership;
- 2) No apparent justification for Risk weights (Sec. 702.104, See Table 6, page 11194)
- 3) Subjective determination of higher capital amounts (Sec. 702.105, See page 11203);
- 4) Definition of “complex” credit unions (Sec 702.103, See page 11192);and
- 5) Short time-frame for compliance (See page 11208).

**Impact on the Credit Union and its Membership.**

Compared to the risk-based net worth (RBNW) requirement, the RBC proposal will increase the risk weight for:

- a) Investments with maturities exceeding five years;
- b) Member Business Loans;
- c) Consumer Loans;
- d) CUSO Investments; and
- e) The NCUSIF deposit.

The proposal as it is currently written will discourage credit unions from making these types of loans and investments, which is a disservice to our AFCU members. The majority of our members are savers rather than borrowers. Most of our income is derived from investments rather than loans. On one hand we are encouraged to ladder our investments over a longer period of time to insure stable liquidity; but under this proposal we are penalized for investing in a longer term. Because of our already limited avenues for raising capital, it is likely this proposal would force us to charge higher lending and services fees, reduce dividend payments to members and deter investment in new products and services for our members. The proposal estimates the rule would only negatively impact 10 credit unions that would become undercapitalized and would be required to retain an additional \$63 Million in risk-based capital to be considered adequately capitalized. However, industry representatives estimate the collective impact under this proposal on all credit unions could be as high as \$7 Billion.

In preparing the final rule, we ask that NCUA consider the economic impact and consequences of reduced liquidity and the ability for credit unions to provide products and services for the financial well-being of members and their families.

**Risk Weights Are Not Justified (Sec. 702.104, See Table 6, page 11194)**

We would appreciate a further explanation on how the proposed concentration-based risk-weights were determined and why they differ so greatly from the risk-weights assigned to a bank. As written, the weightings are considerably higher than the Basel system prescribed for banks. The reevaluation of certain asset weighting could change a credit union's PCA and thereby hinder credit union lending to homeowners and small businesses as well as deplete resources for product development.

In addition, the weighting is the same for all loans and investments in a particular category. For example, all CUSO investments are assigned the same weight regardless of the type of CUSO and its record of performance.

**Subjective Determination of Higher Capital Amounts (Sec. 702.105, See page 11203)**

Under the proposal, NCUA would have the authority, on a case-by-case basis, to subjectively establish increased individual minimum capital requirements for a credit union. Therefore, even if a credit union is in compliance with the rules, NCUA could require more capital based on "agency expertise." Although some examiners may be considered "experts" in their field, giving this kind of blanket power to all NCUA examiners without specific criteria is not justified and is quite disconcerting.

While the proposal does provide an appeal process, the process itself places a great deal of burden on individual credit unions to prove the NCUA action was not an appropriate exercise of discretion by NCUA. The process also requires credit unions to appeal to the same NCUA Board that made the judgment in the first place. While the proposed rule allows credit unions to seek the opinion the NCUA's Ombudsman, the NCUA Board is not bound by or required to give deference to the Ombudsman's recommendations. An independent appeals process where the ultimate deciding body is not the same NCUA Board that made the decision in the first place would be more appropriate.

**Definition of "Complex" Credit Unions (Sec 702.103, See page 11192)**

This is probably one of the major concerns we have with regard to the proposal. The proposal defines a "complex" credit union as **ANY** credit union with assets over \$50 million. To be considered a complex credit union under the current rule, a credit union need only be over \$50 million **AND** have a risk-based net worth greater than 6%. There is no consideration given for the soundness or safety regarding the types of loans or investments made by the credit union.

NCUA should note that asset size alone does not make a credit union complex. In this narrow definition, by arbitrarily selecting a number, e.g. \$50 million, NCUA may be overlooking smaller credit unions that pose a substantially higher risk to the insurance fund while implementing unnecessary new burdens on credit unions over \$50 million who are of little risk to the insurance fund.

**Extend Compliance Date (See page 11208)**

NCUA should recognize that credit unions need sufficient time to comply with the rule once the rule is finalized. Eighteen months is certainly not sufficient time. Basel III allows banks until 2019 to comply. A three year time-frame for compliance after finalization of the rule would seem to be more appropriate

Submission of the call report will be significantly slower, more costly and more complicated due to the amount of new information to be provided. Gathering such information will require changes by data processors, additional staff time, staff training, etc. NCUA optimistically estimates the rule will require an additional 162 hours of workload annually. That is an extra month's workload on an already overworked staff, provided that NCUA has not significantly underestimated the work involved.

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

Sincerely,

*Fit Sanchez*

Chairman  
AAFES Federal Credit Union

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