GEORGIA'S Own CREDIT UNION

Georgia's Own Credit Union
1155 Peachtree Street, Suite 400
P.O. Box 105205
Atlanta, GA 30348
tel 404.874.0777
toll-free 1.800.533.2062
georgiasown.org

May 27, 2014

Mr. Gerald Poliquin, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandra, Virginia 22314-3428
Via: regcomments@ncua.gov

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

Dear Mr. Poliquin:

Georgia's Own Credit Union (Georgia's Own) appreciates the opportunity to comment on the NCUA Board's proposal to revise Prompt Corrective Action as related to Risk Based Capital (RBC). Georgia's Own is an Atlanta, Georgia based state-chartered, federally insured credit union with $1.9 billion in assets, 25 branches and 176 thousand members. While we agree that there may be a need to modernize capital standards, management believes the current Proposed Rule will have negative effects on Georgia's Own by impeding our ability to fulfill our mission ("We Stand for the Prosperity of Our Members" by offering affordable financial services, promoting thrift among members and providing a low-cost source of credit), as well as, by discouraging investment in long term strategies necessary for the survival of the credit union. If enacted the Proposed Rule will reduce our buffer above the well capitalized level. This will likely force management to reshape the credit union's business model as it relates to long term investment, lending and expansion strategies making the credit union less competitive than other financial institutions in our market. The Proposed Rule will likely inhibit our growth, discourage us from investing in branches and new technology, as well as hinder our ability to explore potential merger candidates referred by our regulators.

Below are the comments that Georgia's Own is asking the NCUA to consider in developing the final version of the RBC Rule.

Several of the risk weightings under the Proposed Rule appear to be too general or excessive. Please consider the following:

- Change the risk rating on cash held at the Federal Reserve Bank from 20% to 0%. The Federal Reserve Bank is the Central Bank of the United States of America and its obligations are directly and unconditionally guaranteed by the full faith and credit of the U.S. Government.
- Differentiate the risk ratings for low credit risk Government Agency issued Investments, such as SBA and Ginnie Mae, as well as quasi-Government Agencies, such as Freddie Mac and Fannie Mae, such that said Investments receive a lower risk weighting than non-Government backed Investments. During the Great Recession, debt Investments issued by Government Agencies and quasi-Government Agencies were and are directly and unconditionally guaranteed by the full faith and credit of the U.S. Government.
- Differentiate the risk ratings for various first mortgage real estate products such that shorter term and adjustable rate first mortgages receive a lower risk weighting than long term first mortgages. Shorter term and adjustable rate first mortgages have lower interest rate risk.

- Change the risk rating on investments in CUSOs from 250% to 100%. Georgia's Own believes that properly managed CUSOs provide a means (1) to serve the community through enhanced loan production, (2) to reduce operating costs through shared infrastructure and (3) to enhance technological capabilities through leveraged service platforms.

Using higher risk weights on longer-term assets to account for interest rate risk is difficult to accomplish with the existing 5300 Call Report data and may lead to undesired consequences without considering the calculated weighted average lives of all assets and liabilities. Please consider the following:

- Enhance the 5300 Call Report such that it collects the additional data necessary to adequately calculate a RBC ratio that incorporates interest rate risk. Elements to consider are asset and liability weighted average lives, economic value of equity and earnings at risk.
- Publish a thorough instruction manual for the 5300 Call Report so that credit unions may follow consistent report preparation standards.
- Consider the potential undesired consequences that under the Proposed Rule a 30 year First Mortgage has a 50% risk weighting compared to a 30 year Fannie Mae mortgage backed Investment which has a 200% risk weighting. The First Mortgage has higher credit risk and higher liquidity risk, yet (under the Proposed Rule) would receive a lower risk weighting.

Limiting the RBC numerator allowance addition to 1.25% ignores the above-limit reserves held by credit unions. The above-limit reserves serve as an appropriate buffer to equity. Additionally, the above-limit reserves will likely increase if FASB adopts the Current Expected Credit Loss model. Please consider the following:

- Remove the punitive 1.25% allowance limit so that those institutions that maintain reserves in excess of said limit may fully utilize the 'above limit' reserves as RBC.
- Consider the implication that FASB's proposed new allowance standard may increase 'normal' reserves by an estimated 30% to 100% at some credit unions. Georgia's Own feels strongly that, if adopted by FASB, this new 'normal' allowance level should not arbitrarily be capped in the RBC calculation.

Imposing higher capital standards, through the Proposed Rule, on the credit union industry may create a need for a temporary supplemental capital source. Please consider the following:

- Allow credit unions to have access, even if for a temporary and authorized purpose, to sources of capital beyond retained earnings.

In summary, Georgia's Own feels that the idea for a RBC calculation is prudent for the NCUSIF and the industry, as a whole. With that said, Georgia's Own believes that the current Proposed Rule should be amended in order to (1) appropriately measure and monitor capital adequacy risk, (2) not create material new risks and (3) not cause material unintended consequences.

We thank you for the opportunity to comment on the Proposed Rule and for your consideration. Please feel free to contract me with questions or comments.

Sincerely,

William L. (Chip) Lusk, Jr.
Chief Operating Officer