Fulton County
Federal Credit Union

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May 22, 2014

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

Re: Comments on Proposed Prompt Corrective Action-Risk Based Capital Rule

Dear Mr. Poliquin:

Introduction:

Thank you for the opportunity to respond to the proposed risk-based capital rule. I submit these comments not only as a member-owner of the cooperative credit union movement but also as a professional with over 14-years' of senior leadership experience with several credit unions.

The Fulton County Federal Credit Union was founded in 1972 and over the past forty plus years, the Credit Union, has evolved into an $83-million, multi-branch member centric financial cooperative dedicated to offering value-added financial services to its 11,500 plus member-owners.

The proposal on risk-based capital issued by the National Credit Union Administration board in January of this year raises several concerns that must be addressed before adoption of the rule in its final form.

I believe specific changes and clarifications to the proposal are needed to ensure that the rule does not unnecessarily burden credit unions and does not adversely affect the industry's ability to meet the needs of its members.

Comments:

Specially, flaws in the proposals design include:

1. It is my belief; the proposal exceeds NCUA's authority under the Federal Credit Union Act. The NCUA would redefine "complex" credit unions that are subject to the rule as those with over $50 million in assets, even though the Act directs the NCUA to consider the portfolios of credit unions' assets and liabilities in determining which credit unions meet the definition, not asset size alone. The ACT requires the NCUA to establish a risk-based capital system to take into account any material risks for which the net worth ratio at the adequately capitalized level may not provide adequate protection. However, the law does not direct NCUA to peg the standard to the well-capitalized level. As CFO, I agree each financial institution should maintain an adequate level of net worth to support its strategy and aggregate risks as to not pose a threat to the Share Insurance Fund. The provisions under 12 USC 1790d(b)(1)(B), including the reference to volunteer boards of directors underscore that credit unions cannot raise capital in the financial markets and that NCUA should be mindful of that in setting net worth standards.
2. Except for consumer loans, the proposed risk weights were not properly set to reflect that credit unions' historic risks are lower than those of small banks. The Board needs to provide justification and additional clarity as to why the proposed risk weights differ from those applied to other community financial institutions. . Each credit union has its own unique risk profile and strategy, therefore there is no effective way to standardize-weighting to include all material risks for all financial institutions and to ensure that each has adequate capital.

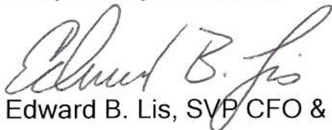
3. Furthermore, under the Act, the NCUA must consider the unique structure of credit unions (the fact that credit unions cannot go into the capital markets to boost earnings). The expectation of the Board is to have more data to support that the weightings are appropriate when combining all material risks such as interest rate risk, liquidity risk and credit risk. The risk-weights in the rule are poorly calibrated and more stringent than comparable risk-weights under the Basel regime for small banks.
4. The proposal's risk weightings on mortgages and business loans would have a negative effect in rural and low-income areas.
5. Current language in the proposal means that NCUA should not impose a higher RBC requirement for a well-capitalized credit union than there is for an adequately capitalized credit union. If 8% is the RBC requirement for adequately capitalized credit unions, than no more than 8% should be the RBC requirement for well-capitalized credit unions - not the 10.5% level that the proposal calls for. The difference between an 8% RBC requirement and the 10.5% level amounts to over $7 billion more in capital credit unions will have to reserve. NCUA would have authority to impose additional capital on a case-by-case basis. While NCUA has verbally stated that such action would require NCUA Board intervention, the proposal as drafted would not preclude examiners from requiring additional capital. The proposal disregards the historically solid of exiting capital standards.
6. The proposal does not address the liability side of the balance sheet; therefore, it does not provide reasonable assurance that credit unions retain levels of capital that are commensurate with their level of risk.
7. The proposal does not provide for an adequate period of implementation. While banks will have up to 9 years to fully implement Basel III, NCUA would only give credit unions 18 months to comply with the new proposal. I encourage the Board to give credit unions additional time than the proposal's allotted 18-months to comply after finalization of the proposal.
8. NCUA has grossly underestimated the impact of the proposal. NCUA has indicated that only 199 credit unions would be affected but the impact will be felt by many more credit unions upon adoption and many more into the future.

Conclusion:

Credit unions are highly regulated and restricted. By law, not regulation, credit unions must maintain a 7% net worth (or leverage) ratio in order to be considered "well capitalized." This leverage requirement is 40% higher than the comparable requirement on community banks. In addition, credit unions face a risk-based net worth requirement in order to remain adequately capitalized. Furthermore, most credit unions can only raise capital through retained earnings, making it challenging to raise capital quickly relative to banks which have the ability to go into the market and raise capital.

In closing, during the financial crisis, natural person credit unions continued to service their communities while most maintained adequately levels of capital. An overwhelming majority successfully weathered the economic downturn and did not engage in many of the risky lending practices that led up to the crisis. I encourage the Board to take into account the cost, burden, and lost strategic opportunities of implementing new risk-based capital requirements beyond the current leverage ratio.

Respectfully submitted,



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