

From: [Dan Davidson](#)
To: [Regulatory Comments](#)
Subject: Subject: Dan Davidson - Comments on Proposed Rule: PCA - Risk-Based Capital
Date: Wednesday, May 28, 2014 8:16:42 AM
Importance: High

Dear Secretary of the Board Poliquin,

On behalf of Alliance Catholic Credit Union, I would like to thank you for the opportunity to provide our thoughts to the National Credit Union Administration (NCUA) on this proposal. Alliance Catholic Credit Union serves people and organizations of the Catholic faith in metropolitan Detroit. We have over 43,000 members, 9 branches, and roughly \$414 million in total assets as of March 31, 2014.

From the agency's role to manage the share insurance fund, I understand the need to institute an improved risk-based measure of capital. However, from reviewing the proposed rule, I have some concerns how the new limits affect us strategically, the risk weightings, subjective examiner authority, and timeline for implementation. I trust that my comments, along with the many others you have received and continue to receive, will be carefully considered in your analysis.

STRATEGIC

We have grown our net worth position over the last few years through our strategic direction and thorough management of our business. The new risk-based "well-capitalized" ratio is 10.5%. As of 3/31/14, our net worth ratio was 8.74% with a "well-capitalized" cushion of \$7.2 million. When running our data through the NCUA RBC calculator, our risk-based capital ratio is 11.87%, well above the 10.5% threshold, but the cushion decreases to \$4.0 million. We would need a risk-based capital ratio of 12.96% to maintain that same cushion we have today. There is only one way for Alliance Catholic CU to increase our net worth and that's through retained earnings. With the proposed FASB ruling on Allowance for Loan and Lease Losses on the horizon, the amount of capital needed to maintain that cushion will be even greater.

If the proposed rule passes as is, I fear that we will make strategic decisions for the sole purpose to comply with these caps/risk weights rather than doing what is best for the membership. For example, Alliance Catholic CU has a large percentage (21% of assets based on the NCUA Risk-Based Calculator) of its loan portfolio in real estate mortgages. If our mortgage portfolio increases to 25% of total assets, we will have a higher risk weight towards the risk-based capital calculation. The question we will have to pose to ourselves is do we run our business to appease this rule or do what we are in business for, assisting the membership with their needs and live with the consequences?

With the reduced cushion to the well-capitalized threshold and the affect the weightings will have on member service, we will be forced to reduce our investments in new products and services in the future.

RISK WEIGHTINGS

Many of the risk weightings (mortgage loans, MBLs, investments, CUSOs, etc.) are inconsistent with the Basel III rule for community banks, putting credit unions at a competitive disadvantage. Below are some comments on weights:

Investments in CUSOs - The credit union industry has been built upon collaboration, which is also how CUSOs came into existence. We are the owner of four CUSOs and the earnings from those companies have greatly assisted our success in this low interest rate environment. We returned nearly 14% on our CUSO investments for 2013. Placing a 250% weight will restrict future investments in CUSOs, could possibly affect that important income stream, and reduce the main reason we exist, collaboration.

Investments - U.S. Government securities have a zero risk weighting, while all other investments are weighted based on their WAL. This could lead credit unions to purchase those investments with a negative effect on interest rate risk just to have a better risk-based component. Also, why are the weights so different than the Basel III weights (20% - 200% vs. 20% across the board for banks)?

Member Business Loans and Mortgage Loans - The risk weights based on concentration risk would affect our member service, as noted above. As we approach a risk-weight threshold, we will have to determine if we want to assist the member, as we were designed to do, or turn them away and increase our reputation risk. The risk weights vary greatly with the Basel III for small banks, creating an unlevelled playing field with the banks.

Corporate Perpetual Capital - The max a credit union can lose when they recapitalized the corporation credit unions is 100%. Why is there a 200% weighting on this asset?

Delinquent Consumer Loans – I don't understand how the risk weights for Secured and Unsecured are the same. Obviously, with the Secured consumers, we have collateral that can be sold in the event of a loss.

Allowance for Loan and Lease Losses – I do not understand the cap of 1.25% of risk assets for the ALLL. Alliance Catholic CU does not currently hit this cap, but during the recession, we certainly did. The reserves in the ALLL are set aside for the future losses of loans to the credit union, a calculation to improve the risk situation of the institution, so why cap it?

The concentration and interest rate risk the NCUA is trying to measure through this rule would be better reviewed through the annual examination process on a case-by-case basis, not weights applied to all credit unions, regardless of their balance sheet composition.

Also, these calculations proposed are flawed because they are based on the 5300 Report. The 5300 Report doesn't ask for the maturity schedule for loans, just the original term. For example, a 30 year mortgage with 6 years left until it matures is counted as a 30 year mortgage. Having the risks tiered based on their maturity schedule would more accurately paint the risk picture of our credit union's asset portfolio over simply issuing them as "First Lien" mortgage loans with a concentration piece.

SUBJECTIVE EXAMINER AUTHORITY

Alliance Catholic CU believes the examiners should not have subjective authority as it relates to demanding a CU to hold additional capital. This needs to be well-defined and handled through the CAMELS rating system, which is risk-based, not the risk-based capital.

TIMELINE FOR IMPLEMENTATION

The timeline for implementation is much too short to strategically rebalance our balance sheet. By comparison, the new Basel III rule for banks has an implementation period of 6 years. This would allow us more time to rebuild our business lines and capital to prepare for the new rule.

Overall, we understand the need to bring our measurements in line with the banking industry, but we would like to see many changes so our membership is not affected negatively. Also, it appears the credit union industry has a competitive disadvantage when comparing the risk weights in the NCUA proposal to that the Basel III weights for banks. There is enough competition in the marketplace as it is, from traditional and non-traditional sources, that we do not need additional pressures.

We hope that our comments assist you in making this rule beneficial to all parties.

Thank you for the opportunity to comment on this proposed rule.

Sincerely,

Daniel C. Davidson II
SVP/Chief Risk Officer
Alliance Catholic Credit Union

Daniel C. Davidson II | SVP/Chief Risk Officer
ALLIANCE CATHOLIC CREDIT UNION
E: ddavidson@allianceccu.com
P: 248.519.4804
F: 248.663.5661
www.allianceccu.com