



May 27, 2014

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

Re: Comment on the Proposed Prompt Correct Action – Risk Based Capital Regulation

Dear Mr. Poliquin,

The Alaska Credit Union League is a volunteer league that represents Alaska's Credit Unions and our members. On behalf of the League, please accept this letter as our expression of comment and concern about the current Risk Based Capital proposal put forth by the NCUA.

Alaska impact:

All Alaskan Credit Unions are currently considered Well Capitalized, and those Credit Unions impacted (defined for these purposes as \$40M and above) would experience a reduction in our buffer over the Well Capitalized threshold of approximately \$79,000,000. The median increase in capital needed to rebuild that cushion over the Well Capitalized threshold would be 77 basis points. Three Alaskan Credit Unions would experience a drop of over 100 basis points. In reality, however, given the level of fluctuations and variability in capital position that can result from this proposed regulation, I wouldn't be surprised to see Credit Unions aim for a much larger cushion, and therefore seek to rebuild even more capital. Therefore, while most Alaskan Credit Unions will retain Well Capitalized status, these are material declines in capital position which will impact our competitiveness and ability to return value to our membership.

Federal Credit Union Act Authority:

Your current proposal establishes a Risk Based Capital requirement to the Well Capitalized PCA category. However, the FCUA states that the Risk Based Net Worth requirement shall "take account of any material risks against which the net worth ratio required for an insured credit union to be adequately capitalized may not provide adequate protection." In other words, the Act allows the Board to establish

RBNW criteria to support the Adequately Capitalized Net Worth Category, but not that of Well Capitalized. Your proposed regulation is therefore in violation of the Federal Credit Union Act as well as contrary to legislative intent.

Time to implement and Call Report modifications:

The proposed regulation gives Credit Unions up to 18 months to implement. Communication from the NCUA indicates that the time frame was largely based upon the NCUA's needs in making call report modifications, but I ask you to consider the needs of the industry that you regulate. Eighteen months is not sufficient time to compensate for this reduction in net worth position, or to adjust balance sheet allocations in a way that does not potentially harm Credit Unions. If this regulation goes forward as written, some measures Credit Unions will be forced to consider include termination of loan programs, sale of loan portfolios, sale of CUSO investments, and implementation of new loan programs. These are steps with massive strategic implications that should not be taken quickly.

This impact will be on the whole industry, not just the 199 Credit Unions that see a change in the PCA status. Given the fact that the banking industry has had years to plan and prepare, surely we're entitled to the same? There is no emergent need for quick implementation of this regulation, and we believe we should be given at least 5 years to implement. This will allow Credit Unions to factor these new strategic pressures into our strategic planning structures, and will cause less harm to the Credit Unions and the members they serve.

We have also been told that to some extent the asset categories and breakdowns in the proposal were established based upon data already reported in the 5300, and the NCUA wished to lighten the regulatory burden on Credit Unions by keeping the call report data the same to the extent possible. After discussing this at our League meeting, I can say with certainty that Alaskan Credit Unions would much rather deal with new data groupings for the 5300 if they result in a regulation that is fair and meaningful, than be ruled by arbitrary regulations chosen because we already present our data that way on the 5300.

Method for determining weights and integration of concentration risk:

The NCUA says that it wants to ensure that Credit Unions maintain capital levels that are commensurate with their risk, yet there appears to be no correlation between the weights imposed on mortgage and member business loans and their loss histories. The Credit Union industry has a long history of mortgage loan and MBL loan losses that equal or outperform that of the banking industry, but the NCUA has used the banking model's risk rates as a starting point, and then escalated the weights to reflect supposed concentration risk.

Second, these concentration risk measures are arbitrary and have no relation to the credit quality of the loans at issue or the likelihood of loss in the event of a massive economic downturn. Per NCUA requirement, we have Concentration Risk programs where we manage our portfolios to various limits, proof the validity of high concentrations and analyze performance of heavily concentrated portfolios. Our analysis and plans DO take into account our membership, our collateral, our expertise and the risk

position and performance of our programs. By including Concentration Risk in the RBC calculation in this fashion, you are replacing an informed and realistic method of managing Concentration Risk with one that is completely random.

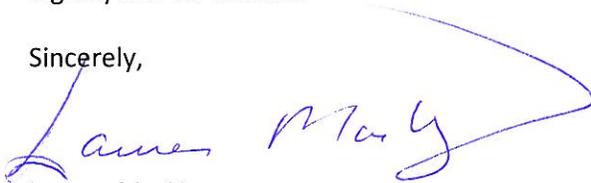
Third, the NCUA has increased the weights associated with these assets, but is suggesting net worth requirements in keeping with those of the banking industry. So, they have set the same goal and measure of what constitutes well and adequately capitalized, but they have made it harder to get there with no basis in fact or history. This is counter to the FCUA which states that NCUA should be mindful of the fact that Credit Unions cannot raise supplemental capital when setting net worth standards. (1790d(b)(1)(B))

Summary:

In sum, it appears that the NCUA in their proposed Risk Based capital Rule is attempting to address as many material risks as possible, and in so doing they are addressing none of them well or responsibly. While the proposal may be well intentioned, it does not take a long term, strategic look at the real impact on the industry. Alaska Credit Unions enjoy a great relationship with Alaskans, but we fear that this proposal will have a truly adverse impact on our ability to serve our state.

On behalf of the ACUL, I encourage you to take a long, hard look at your proposal, and consider both its legality and its wisdom.

Sincerely,



Lauren MacVay

Chair, Alaska Credit Union League