May 28, 2014

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

Re: Comment on Proposed Prompt Corrective Action (PCA) – Risk Based Capital Rule

Dear Mr. Poliquin:

Thank you for the opportunity to respond to the proposed risk-based capital rule. Fitzsimons FCU has assets of over $166 million and is considered Well-Capitalized at 12.09% under existing PCA requirements as of March 31, 2014. Under the proposed rule, Fitzsimons FCU's Risk-Based capital ratio would be 17.94% and not adversely affected today by the proposed rule. However, I'm concerned with how this proposed rule could adversely affect my credit union at some future point as well as the credit union industry in general.

There's no disagreement that each financial institution should maintain adequate net worth to support its strategy and aggregate risks so as not to pose a threat to the National Credit Union Share Insurance Fund (NCUSIF). However, there does not seem to be a clear justification for the need for risk-based capital reform.

The proposed rule focuses on: interest rate risk, concentration risk, credit risk, market risk, and liquidity risk; however, the risk weightings assigned under the proposed rule appear arbitrary.
For example:

- The risk-weighting for cash on deposit at the Federal Reserve should be 0%, not 20%, especially since the Federal Reserve is one of the NCUA-designated sources for emergency liquidity. Its risk rating should be similar to that of U.S. Government agencies.
- The risk-weighting for U.S. Treasuries, debt instruments, or obligations guaranteed by the U.S. Government or an agency of the U.S. Government, regardless of term, completely ignores interest rate risk. Many other types of investments, such as mortgage-backed securities, have less interest rate risk in a rising rate environment than a long-term U.S. Treasury.
- Different loans types with different credit risk, interest rate risk, and liquidity risk profiles all have the same risk-weighting under the proposed rule.

From an industry perspective, some of the NCUA proposed risk-weights would require credit unions to hold much more net worth as compared with the FDIC and Basel III requirements for community banks without any solid justification for the differences. In time, the disparity in risk weights would result in a competitive disadvantage for credit unions. I would at least argue that the NCUA should change those risk-weights to be consistent with the risk-weighting given to those assets by the FDIC.

It's understandable that the NCUA is trying to simplify the assignment of risk weights across different asset categories required on the 5300 call report without expanding reporting requirements, but this approach can misrepresent the actual inherent risks of these various assets.

Credit union risk management is far too complex to be adequately quantified via arbitrary risk-weightings. I request that the proposed rule be scrapped and the current risk-based net worth requirements be retained.

Sincerely,

David Erickson, VP Finance