1st MidAmerica Credit Union
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May 28, 2014

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

Subject: PCA – Risk Based Capital

Dear Mr. Poliquin,

On behalf of my Board and myself, I appreciate the opportunity to comment on the proposed Risk Based Capital Rule. 1st MidAmerica Credit Union has over 45,000 members and is $500,000,000 in assets. Although our credit union falls into the well capitalized category for both the net worth ratio and the proposed risk based capital ratio, I have several concerns about the proposed regulation.

The initial design of the new capital system is based on the Basel III model; however, the risk ratings proposed by NCUA are more restrictive than the Basel III model. There is also a longer implementation time for banks to comply with Basel III. These restrictions will place credit unions at a competitive disadvantage with other financial institutions, and be harmful to our members as it may restrict products and services from which they currently benefit.

Risk rating:

Member Business Lending (MBL) risk weightings up to 200% are punitive whether or not the cap on MBL is lifted. Currently we would not be affected by the risk weightings, but the risk weighting does not take into account the LTV, re-pricing frequency or portfolio performance. The proposed risk ratings are not consistent with Basel III.

Mortgage lending graduated risk ratings based on percentage of assets are more severe than Basel III standards. The proposal does not consider Debt to Income, LTV, or other underwriting standards. The proposal also does not consider the funding sources of longer term mortgages. Throughout the financial crisis, our mortgage portfolio was a strong pillar to our membership. We diversified risk by selling long term mortgages. At the same time, we created a new mortgage product to help our membership which was a shorter-term product which we held on our books. The portfolio LTV was 50% with an average credit score of 749. Portfolio risk factors should be considered in risk ratings.

Second Mortgage risk ratings of 100%-150% exceeds the Basel III standards of 50%. Loan characteristics should be considered before assigning higher risks based on percentage of holdings. As interest rates rise, refinancing will slow, and members will retain their first mortgage. The second mortgage products will again become a larger part of the credit union portfolio. The higher risk ratings will challenge credit unions' ability to offer any significant concentration of this product.

Delinquent loan risk ratings of 150% are inconsistent with the Basel III standard of 100%. The higher standard will cause credit unions to re-evaluate lending to members of lesser means. 1st MidAmerica has tried to incorporate lower credit scores into our portfolio thus increasing the overall percentage of members qualifying for loans. With the increased risk, we have enhanced our collection efforts and maintained a quality portfolio. By being able to serve members of lesser means, we can keep them from predatory lending. Higher risk ratings within this category could reduce our ability to serve our membership.

Other Concerns:

Examiner Subjectivity - Allowing examiners to subjectively require higher levels of capital could introduce undue bias. There are many factors which could be introduced and cause an examiner to require additional capital as opposed to addressing the exact concern in examiner findings.

By requiring credit unions to set aside additional capital, credit union growth will be restricted and we will reduce the benefits to our membership.

Again, I thank you for the opportunity to comment on the proposal. If you have any questions regarding my response, please feel free to contact me.

Sincerely,

Alan M. Meyer

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President/CEO
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cc: Patrick Smith, Illinois Credit Union League