From:	Edward Bohnwagner
To:	_Regulatory Comments
Subject:	Edward Bohnwagner - Comments on Proposed Rule: PCA-Risk-Based Capital
Date:	Wednesday, May 28, 2014 3:29:54 PM

Dear Secretary of the Board Poliquin;

I am writing to comment on the NCUA Risk Based Capital proposal. I am Chief Financial Officer of United Business & Industry Federal Credit Union, ("UBIFCU"); a community based credit union serving Hartford County, in Connecticut. We currently have 9,579 member owners and $85 million in assets.

When I first heard that the NCUA was issuing Risk Based Capital guidelines, I was thrilled, as I am in favor of this type of risk measurement and believed that UBIFCU would show increased capital levels based on our relatively plain vanilla balance sheet, especially after losing significant capital due to the Corporate Credit Union debacle. I also believed it would be another way to show that Credit Unions are safer than many banks. However, I was wrong!

The proposal, in its current form will lower UBIFCU's classification from Well Capitalized to Adequately Capitalized. To fathom that UBIFCU will need to "Strategically reduce the risks in our portfolio" (to quote Chairman Matz's comments in The NCUA Report, May 2014), where I do not believe there are significant risks, and / or to "Hold more capital" (which is always our intent), but in an environment in Connecticut where 55 of the 119 credit unions had an ROA of zero or less for the year ended 12/31/13, will be challenging. The proposal in its current form will likely change the strategic initiatives of UBIFCU, not because they are better for the long term strength of the credit union, not for the benefit of our member owners, but to reach and arbitrary level of risk that I do not believe is fair.

The following outlines areas of risk weight that I believe should be changed to appropriately reflect risk on UBIFCU's balance sheet:

- **NCUSIF Deposit** -Subtracting the NCUSIF deposit out of the Risk Based Capital numerator does not make sense. It is assuming that the deposit is already a loss to every credit union. I understand that this 1% of our insured shares funds the NCUSIF and it is required, but I don't expect the Fund to fail, and there are only an extremely small amount of all credit unions that are in a position to fail and reduce the fund. The NCUSIF will be brought up to appropriate levels through assessments. The NCUSIF deposit should not be subtracted from capital and it should carry a risk weight of zero on the balance sheet.

- **Federal Reserve Bank Balances** - Many credit unions have balances at the Federal Reserve. In the proposal these balances are weighted at 20%. If balances at the Federal Reserve carry risk, we are all in trouble. In my opinion these balances should not carry any risk weight, even though they are at 20% under BASEL III. These balances would need to be broken out on the call report.

- **Investments** - Investments in Federal Agencies should carry a lower risk rate! Preferably similar to BASEL III at 20%. There is limited credit risk in these investments, and while there is interest rate risk, it does not warrant the significant weighting that is in the current proposal. Interest rate risk should be evaluated looking at a credit union's balance sheet as a whole, and managed through the individual credit union's interest rate risk policy and program. Plus many credit unions including UBIFCU, have significant liquidity options, hence the ability to hold these investments to maturity.

- **Nondelinquent Other Loans** – Auto loans should be broken out from this total and have a lower risk weight, they are significantly less risky than Unsecured loans and Credit Card loans. Actually based on the recent recession, I believe that auto loans are less risky that mortgages.

- **Delinquent Consumer Loans –** Secured delinquent consumer loans should be weighed much less than Unsecured delinquent consumer loans. In the proposal they are both weighted at 150%.

Without changes, I believe the proposal is a disservice to natural person credit unions. Since 2008, UBIFCU has been applying the sustainable growth model, growing capital at a rate greater than or equal to our asset growth. Thus restoring the capital we lost due to the Corporate Credit Union mess, while still growing to achieve economies of scale to benefit our member owners. UBIFCU lost the equivalent of 121 basis points in capital related to Corporate Credit Union investments and has paid assessments equal to another 65 basis points of capital, based on our current asset level. We and other credit unions weathered the storm; we have already paid for the mistakes of others, paid for poor regulation, poor supervision, and a system that was set up like a house of cards. The risk that required the $20 billion infusion from NCUA's Central Liquidity Facility and the $6 billion from NCUA's line of credit at the U.S. Treasury was due to the system, not individual natural person credit unions.

I believe there are no better, safer or stronger financial institutions than natural person credit unions! Let's continue to show that with fair risk based capital guidelines!

Thank you for the opportunity to comment and for your time and consideration!

Sincerely,

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