May 28, 2014

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

RE: Comments on Proposed Rule: PCA - Risk-Based Capital; RIN 3133-AD77

Dear Gerald Poliquin,

I am writing on behalf of Aerospace Federal Credit Union (AFCU),located in El Segundo, California, which serves The Aerospace Corporation and Los Angeles Air Force Base. As of the March 31, 2014 reporting period, we have 10,717 members and $364.2 million in assets. The AFCU appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule regarding Prompt Corrective Action – Risk-Based Capital (RBC).

My credit union generally supports risk-based capital principles. However, we feel strongly that the proposed rule, as currently drafted, will adversely impact our business model and severely harm the credit union industry by creating a significant competitive disadvantage in the market place. We respectfully submit the following comments on the proposed rule.

Inconsistency in Risk Weightings for Real Estate Related Assets

The AFCU is atypical in comparison to most credit unions its peer group. That is, approximately 80% of earning assets are investments; as of March 31, 2014, our loan to share ratio was under 20%. The structure of the AFCU balance sheet is a reflection of its members' savings and borrowing behavior.

In our business model we fund and sell most of the first mortgage loans that we originate. We utilize this ALM strategy to mitigate interest rate risk, credit risk, and concentration risk. Under the proposed RBC rule, cash flows from a unique real estate related asset are risk weighted differently based on how the asset is held in the portfolio of earning assets. That is, a first mortgage loan that is funded and held in portfolio has a lower risk weighting than if that same mortgage loan is sold in the secondary market and included in a mortgage-backed investment that could be purchased by the credit union.

The anomaly in risk weightings is because for the first mortgage loan held in portfolio the risk factor is based on concentration, or ratio, of that "asset" to "total assets", whereas the risk weighting for a mortgage-backed investment is based on average life. We believe the proposed RBC rule should recognize the underlying cash flows of similarly structured assets and apply a uniform risk weighting; either by concentration levels or average life, but not both.

Based on the structure of our balance sheet, a first mortgage loan held in portfolio would have a risk weighting of 0.50, and a mortgage-backed investment with identical cash flows would have a risk weighting in the range of 0.50 to 2.00. As currently proposed, the RBC rule will place our credit union at a competitive disadvantage. This disparate treatment of assets with identical cash flows is part of Prompt Corrective Action (PCA) today and we believe NCUA should address and correct this misalignment in the new RBC rule. As currently proposed, our credit union has a greater capital burden for an asset class (mortgage-backed investments) that technically has less risk than a first mortgage that is held in portfolio.

Individual Minimum Capital Requirements

We believe managing interest rate risk is more of an art than science and is unique to every credit union. It is unlike other risks in a credit union's operation where a "check-off list" of best practices may suffice to ensure compliance and the safety and soundness of the credit union. For a credit union with a "complex" balance sheet the task of mitigating interest rate risk and the corresponding NCUA supervisory role is amplified. NCUA examiners bring a level of proficiency and knowledge to each examination. However, based on our experience, all examiners are not equal in their ability to assess the interest rate risk profile of a credit union that is outside the box.

To that end, we believe the proposed rule with the provision granting NCUA authority to require even higher capital for individual credit unions is troubling. This highly subjective element should be stricken from the rule. A properly structured RBC system should make this provision in the proposed rule unnecessary. If it is not eliminated, an independent third-party should be established to mediate any appeal between a credit union and the NCUA; the NCUA should not be the examiner, the regulator, and the "appealed to" entity.

Parity with Banks

Risk-based capital is appropriate, but the requirements for credit unions should not be more restrictive and punitive than they are for U.S. banks and any other financial institution in the world under the Basel III framework. This places credit unions at a competitive disadvantage and will result in a reduced ability for credit unions to serve their members and communities.

NCUA is exceeding their authority

Congress never intended for NCUA to set up a risk-based capital standard for well-capitalized credit unions. The FCU Act directs NCUA to devise a risk-based requirement, but the risk-based component for the well-capitalized threshold can be no higher than the component for the adequately capitalized level. Under NCUA's proposal, however, that is not what would happen. This goes against the current FCU Act and system of PCA.

In conclusion, we would support a sensible, lawful approach to risk-based capital requirements; however, this proposed rule will do more harm than good—creating a huge competitive disadvantage.

Thank you for the opportunity to comment and for considering our views on the proposed risk-based capital rule.

Sincerely,

Marvin Thomas
President/CEO
Aerospace FCU

cc: CCUL