Ascend
Federal Credit Union

P.O. Box 1210
520 Airpark Drive
Tullahoma, TN 37388
1.800.342.3086
ascendfcu.org

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

RE: Comments on Proposed Prompt Corrective Action – Risk-Based Capital

Mr. Poliquin:

Thank you for the opportunity to comment on the National Credit Union Administration Board's proposal to revise credit union risk-based capital guidelines. Ascend Federal Credit Union (AFCU) is a $1.6 billion federally chartered credit union with 16 financial centers located in Middle Tennessee and serves over 145,000 members. We are a strong capitalized credit union with risk-based capital calculating well above the proposed rule minimum of 10.50%; however, implementation of this rule could adversely impact decisions we strategically make going forward as we look to grow and effectively serve our members within our defined market.

The proposed rule would risk-weight first mortgage loans at 50% until the portfolio balance exceeds 25% of assets and then on a tiered scale up to 100% if the portfolio exceeds 25% and then 35% of assets. Other regulators risk-weight first mortgage loans at 50% regardless of the size of the portfolio. If a tiered scale is your preference there are other characteristics that should be part of the equation that would more appropriately measure risk such as loan-to-value status, fixed rate vs. adjustable rate, maturity date or interest adjustment date. Regardless, a credit union mortgage loan portfolio should not be subject to higher risk weights than any other financial institution. The suggested risk-weight structure only serves as an incentive for credit unions to curtail mortgage lending activities in spite of the fact that the industry has historically held stronger, safer portfolios and have experienced far fewer losses than banks.

Member business lending is a relatively new area for AFCU. The portfolio is growing but still well below the current regulatory cap of 12.25% of assets. The proposed rule risk-weights the portfolio on a tiered basis at 100% when total loans are 15% of assets or less with higher concentrations risk-weighted up to 200% while other financial institution commercial portfolios are risk-weighted at 100% regardless of the size of the portfolio. The lowest tier of 15% of assets is already higher than our regulatory cap but should future regulations allow credit unions to exceed 15% will these tiers be adjusted to reflect the change? Again, the suggested risk-weights are a deterrent to offering business services to our members, a service which has become an increasingly important product for our market area.

The tiered basis for mortgage and member business loan portfolios also has a potential negative impact in loan pricing for our members. Current rate models used for establishing mortgage loan rates indicate the new requirements would result in an approximate 30 basis point increase in mortgage rates. The tiered weight is counter to the benefit that credit unions gain in growing operations in order to scale their cost of delivery.

Federal Reserve balances should be risk-weighted at zero percent. The Federal Reserve was created by and is backed by the federal government specifically as a safe, financial system and should be treated no more risky than a United States Treasury security. The Fed is an important source for maintaining excess cash balances and for temporary borrowings. Assigning a risk weight of 20% to these balances could limit Federal Reserve deposits and hamper the flexibility of daily cash settlements for credit unions of all sizes.

Investments in federal agency securities are risk-weighted at 20% by other financial institution regulators regardless of the maturity date. Assigning higher risk weights to these securities with maturities extending beyond one year from 50% to as high as 200% is a serious obstacle for the future earnings capacity of credit unions and thus the ability to build capital. It is also confusing that a mortgage-backed security could be disproportionately risk-weighted as high as 200% if it exceeds ten years to maturity while a 30-year first mortgage loan secured by the same type collateral could be risk-weighted as low as 50%. Fannie Mae and Freddie Mac have posted net profits for nine and ten consecutive quarters, respectively, so there is no justification for assuming a credit union would experience increased risk by holding an agency security with a weighted average life longer than 12 months.

We understand the intention behind the proposed rule however we feel the credit union industry has already proven its strength and capital adequacy since the economic downturn several years ago and has fared much better than those governed by other financial institution regulators. Under the *Summary of The Proposed Rule* it states the calculations would be "more consistent" with risk-based capital measures used by other federal regulators. While the calculation methods are structured similar to that of other regulators the percentages arbitrarily assigned appear to be a drastic approach that will restrict otherwise healthy credit unions from future growth and inhibit them from providing quality member service. Most importantly, the risk of any asset is the same risk regardless of which type of financial institution holds the asset. The proposed risk-based capital calculations would indicate that it is riskier for credit unions to hold certain assets than it is for a bank to hold the same. In turn, this would require a credit union to maintain higher levels of capital than a bank for the same portfolio characteristics and is contrary to the fact that credit unions are already subject to more stringent capital guidelines and have been the source of far fewer losses to their insurance fund than their banking counterparts.

Thank you for the opportunity to comment on the risk-based capital proposed rule. We appreciate your consideration of the concerns expressed.

Sincerely,

Sandra H. Gregory

Sandra H. Gregory
Senior Vice President/Chief Financial Officer