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CREDIT UNION

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May 28, 2014

Gerard Poliquin, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria VA 22314-3427

Re: Comments on Proposed Rule PCA-Risk-Based Capital

Dear Secretary Poliquin:

I am writing on behalf of Fairmont Federal Credit Union (FFCU), which is a community credit union with 38,000 members and $300 million in assets, to express our concerns with the Proposed Prompt Corrective Action Risk-Based Capital Rule.

Firstly, it is our understanding that one of the purposes of modifying the current Risk-Based Net Worth metric was to provide some standardization in capital requirements between the credit union and banking industries. However, we feel strongly that the proposed rule puts credit unions at an even greater disadvantage to banks for the following reasons:

- Compared to banks, credit unions have only one source to raise capital – net income
- With risk-weightings that exceed Basel III measurements credit unions will be held to higher capital standards than banks
- Using a risk-based capital simulator tool, FFCU's capital ratio was 100bps lower using NCUA's risk calculations, compared to Basel III parameters

Secondly, the proposed rule will constrain credit unions' ability to grow and serve their members. FFCU experienced substantial asset growth in 2009 that resulted in a sharp decline in its capital ratio from above 10% to just below 8% at times. This growth spurt, compounded by NCUA's assessments for the Corporate Stabilization Plan, led the Credit Union to an aggressive five year strategic plan to control and limit deposit growth in order for the capital level to catch up to the asset growth. We have been successful in improving our ratio, but still have a way to go to get back to 10%. We experimented with several risk-based calculator tools and feel confident that in the short run FFCU will continue to be well-capitalized, but are concerned that we will continually have to limit our growth in order to maintain that classification as the proposed rule will likely put similar pressures on the capital and net worth measurements and are likely to result in the following:

- In order to grow deposits but avoid higher minimum levels of capital, FFCU may have to cut back on mortgage and member-business lending and invest in shorter-term, lower yielding securities
- Pressure to increase net income will likely result in higher fees and lower dividends for members

Thirdly, one of the goals of the new rule making is that it "should address credit risk, interest rate risk, concentration risk, liquidity risk, operational risk, and market risk", but is that really necessary since credit, interest rate, concentration, and liquidity risks are addressed through ALLL and asset-liability management rules and guidance? Would not the rule be more manageable if it focused on operational and market risks that have a more direct impact on risk-based capital? There is no doubt that covering all potential risks in limited measurements is both lofty and challenging and as a result, many risk weightings can be deemed arbitrary, excessive, and at times punitive, for instance:

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- Non-delinquent mortgage weightings of 50%/75%/100% are based solely on concentration levels, which is arbitrary and excessive with no consideration for maturities or repricing while Basel III sets all non-delinquent 1-4 family mortgages at 50%
- Member Business Loan weightings of 100%/150%/200% are also solely based on concentration levels, which is excessive and punitive without considering collateral, term, or repricing components while Basel III establishes 100% for all commercial loans
- Investments with weightings ranging from 20% to 200% are based solely on maturity with no consideration for credit quality and repricing, which is arbitrary and excessive while Basel III weightings are based on credit quality regardless of maturities or average lives
- The corporate credit union perpetual capital weighting at 200% is excessive and punitive and sends a message that credit unions should not be members of corporate credit unions as those investments are equivalent to "junk" bonds since the only 200% weighting under Basel III is for below investment grade bonds
- The 20% weightings for insured cash on deposit at other financial institutions are also excessive and why should funds on deposit at a Federal Reserve Bank be 20% risk weighted?
- Risk weighting all other assets, especially land and buildings, at 100% inappropriately assesses them with a zero value, which is both unrealistic and excessive

And lastly, there are several other elements of the proposal that give us concern:

- We do not agree with the logic for deducting the 1% NCUSIF deposit from the numerator
- We have concern that deducting goodwill from the numerator will be a disincentive for future credit union mergers and acquisitions
- We disagree with the Individual Minimum Capital Requirement component of the rule and actually see no need for it since there are already provisions in place for dealing with undercapitalized credit unions and we strongly oppose in all circumstances delegating such subjectivity to the examiner level
- While we are confident that FFCU will remain well-capitalized under both calculations we are concerned that an 18-month implementation period will be insufficient for credit unions that may be just under the well and adequately capitalized requirements and we would prefer a 3 to 5 year phase in period with minimum requirements for each period

In conclusion, we appreciate the opportunity to comment on this proposed rule and trust our views and concerns will be duly considered.

Respectfully submitted,

Debra Droppleman . CFO
Fairmont Federal Credit Union

cc: The Honorable John D. Rockefeller IV, U.S. Senator
The Honorable Joe Manchin III, U.S. Senator
The Honorable David McKinley, 1st District U.S. Congressman