USAlliance
FEDERAL CREDIT UNION
600 Midland Avenue, Rye, NY 10580-3902

May 28, 2014

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

Dear Mr. Poliquin,

USAlliance Federal Credit Union (USAlliance) is a federally charted financial institution headquartered in Rye, New York. On behalf of USAlliance, I would like to formally submit the following comments on the National Credit Union Administration (NCUA) new proposed risk based capital regulation (RBC).

While USAlliance generally supports the concept of risk based capital, we feel the current proposal lacks the framework needed to support the ongoing evolution of the credit union industry to effectively function competitively in the financial services industry. We have reviewed and support many of the comments already submitted and we will refrain from submitting repetitive points. However, as proposed, we feel the framework will inhibit credit unions long-term viability in fully servicing the financial needs of current and future members.

As proposed, RBC appears to establish a variety of punitive asset classifications without consideration for compensating internal controls. These classifications could have significant and potentially unexpected consequences as credit unions strive to redistribute their balance sheet to enhance their risk based capital calculations. For example, USAlliance had identified interest rate risk (IRR) as a top ongoing risk several years ago; and as a result, we have emphasized variable loan products. Consequently, we had success with a variable rate home equity product even when real estate values had remained depressed. We also utilized our dual market charter emphasizing both Massachusetts and New York to help mitigate concentration risk. As a result, USAlliance has a seasoned, diversified and well underwritten portfolio of home equity loans, enhancing our overall interest rate risk position. As presented, the RBC framework seems to incent a change in balance sheet composition that could negatively impact our IRR strategy to enhance our RBC position. More importantly, the RBC classifications as proposed do not recognize important controls used by many progressive organizations to help mitigate risk such as regional geographic diversity, a disciplined approach to maintaining seasoned loans, and underlying underwriting and collateral positions. Most notably, not all home equity loan portfolios share the same risk profile.

Similarly, the proposed risk based capital is focused solely on assets. Most well run organizations utilize deposits/borrowings in risk mitigation. For example, often progressive financial institutions manage both assets to liabilities to mitigate risk including interest rate risk. With the sole focus on assets, institutions may be penalized for longer maturities, even if they are well integrated with proper corresponding deposit or borrowing funds.

Most importantly, the proposed regulation does not provide alternatives for raising secondary capital. Adding additional credit union risk based capital burdens without capital alternatives will likely result in a contraction in the industry when we are already under pressure from alternative financial segments that have more options, fewer burdens, and for-profit motivations.

USAlliance appreciates the opportunity to respond to the risk based capital proposal.

Sincerely,

Kris VanBeek
President/CEO