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Mr. Gerard Poliquin
Secretary of the NCUA Board
1775 Duke Street
Alexandria, VA 22314

RE: NCUA Proposed Risk Based Capital Rule

Dear Mr. Poliquin,

On behalf of The People's Federal Credit Union, I would like to offer the following comment letter on the recent NCUA proposed Risk Based Capital rule. Our credit union recognizes the need for a well balanced and credit union specific set of capital standards and that risk based capital standards are better than the current net worth standard established by Congress, we have serious concerns about the proposed rule as submitted. We feel that these issues must be addressed or the result could be an unworkable capital standard that puts the credit union charter at a competitive disadvantage. We would like to respectfully address the following concerns and offer possible improvements to the regulation in these specific areas.

Overall, you've submitted a one size fits all approach that now applies to categories of assets not total assets as in the current net worth rules, an improvement but still a one size fits all approach. The current net worth standard would still be required by law so this would be no relief just an additional regulatory layer on top of the current standard. The proposal does not state which is primary, if the credit union meets one but not the other, what PCA action will take place? While these standards were modeled after the Basel III Accords, the results are more punitive than Basel due to your over emphasis on concentration risk and interest rate risk. The danger is that most credit unions capital would be better off under bank regulations even though credit unions are generally less risky than our banking counterparts.

Major weakness of your current proposal includes:

Examiner has discretion to increase the risk based capital requirements based upon subjective analysis. This presents a possible moving target for each credit union, how is a credit union supposed to reach its targets and manage its capital if the goal is subject to change based upon subjective analysis?

Effective date of the rule would be 18 months after final approval by NCUA board. Why would we give credit unions just 18 months to possibly restructure their balance sheets when banks had 3-4 years to become compliant? This could cause serious issues in many credit unions who might possibly sell assets at a loss to comply with the capital regulations. The time should be extended to a minimal of three years for an orderly transition.

The risk weights in the current proposals have some major flaws. They are mostly concentration and interest rate risk based and gives no relief based upon credit risk or portfolio performance. Why first or second mortgage loans a higher risk if the portfolio is concentrated in quality credit and is a high performing portfolio? There should be some offset to capital requirements for performance such as

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lowering the risk weight if the credit union manages the portfolio well and stays under delinquency and charge off averages for a period of time.

Consumer loans are weighted equally for all consumer loans (unsecured versus secured), most credit unions know that collateralized loans carry less risk and have protection from charge offs. These loans should have different weightings and possibly include a difference between direct and indirect lending as well.

Investments are weighted solely upon average life, an additional concentration limit. Credit unions should not be penalized on investing in longer average life investments when the yield curve and/or future outlook for interest rates indicate that we should take advantage of longer securities. This seems to be based upon the current interest rate cycle position, what happens when in the future we are at the opposite end of the cycle and it makes sense to extend terms to take advantage of the longer rates at that time? Will the NCUA issue new regulations to allow investing longer during these times? There is also no weight changes based upon liquidity position, while some credit unions might be illiquid and should not extend investments terms, others may be quite liquid and should take advantage the yield curve. There also needs to be a clarification of FNMA, GNMA etc. in the final rules as to whether they are assumed to be non-treasury securities.

Finally, requiring risk based capital of 10.5% to be well capitalized seems quite high considering banks under Basel use a 6% risk based, up from 4%. To be considered well capitalized, we think a 9% (200 basis point cushion over the already high 7% threshold) should be sufficient considering most credit unions are not nearly as risky as banks.

In closing, we appreciate your willingness to allow The People's Federal Credit Union to comment on this important regulatory proposal. We encourage you to consider possible improvements and recommendations from the comments to strengthen this proposed regulation. The long term viability of the credit union industry will be impacted by the capital structure under which we operate in the years and decades to come. It is crucial we take the time to balance the appropriate capital to the risk involved. While we understand you have many comment letters to read, we urge you to take a look at an article by economist Arnold Kling, Sr. economist for Freddie Mac and board of governors of the federal reserve system, entitled "Not what they had in Mind: a history of policies that produced the financial crisis of 2008." There are perhaps some insights from this paper that could be used in these circumstances. Once again, thank you for your time and the opportunity to comment on this proposal.

Sincerely,

Arthur V Hornell, Jr. CCUE
CEO/GM
The People's FCU, Amarillo, Tx

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