



May 28, 2014

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

Subject: Response to Proposed Rule – PCA/Risk-Based Capital (RIN 3133-AD77)

Dear Mr. Poliquin:

We appreciate the opportunity to comment on the proposed Risk-Based Capital (RBC) rule. Although we agree that capital regulations should be revised to encompass more robust risk-based parameters, we believe this proposal has significant flaws and should be reconsidered.

Georgia United's net worth ratio was 11.73% at March 31, 2014, a buffer of 4.73% above the "well capitalized" level. Under the new rule, our RBC at March 31, 2014 would be 13.88% with a buffer of only 3.38%. It has been stated that over two-thirds of the nation's credit unions would suffer reductions in their capital buffer. CUNA estimates the impact to be a reduction of \$7.3 billion in excess capital. The excess capital available to grow and appropriately serve our membership will be put in jeopardy, as our only method of generating capital is through earnings. Credit unions will be forced to make business decisions that are not in the best interests of our members and require management to place unnecessary focus on building capital in an industry that is already very safe and sound when compared to banks. This will cause a competitive disadvantage for credit unions.

We agree with the NCUA's desire to better align credit union risk-based capital rules with Federal Agency bank regulations, however, this proposed rule is a substantial departure and much more restrictive than the standard Basel III framework required for banks. As of December 31, 2013, Georgia United's RBC under the proposed NCUA regulations would be 13.98% versus Basel III RBC of 19.74%, an almost 600 basis point difference. We would need to generate over \$42 million of additional capital, or 40% of our existing capital level, to be on a level playing field with the banks. These stricter capital requirements intuitively do not make sense, as credit unions have historically been more conservative than banks in managing risk. This is quite evident in the substantially higher level of bank loan losses and failures during the recent financial crisis. Implementing a higher standard for RBC is not commensurate with the level of risk in the industry. In addition, the industry will also be at a disadvantage with immediate implementation requirements versus the Basel III phased-in approach.

Another difference between Basel III relates to the types of risks addressed, and the amount of capital required, for certain assets. While there are some advantages provided to credit unions, as Basel III requires a higher capital level for consumer and other loans, credit unions are severely disadvantaged with unreasonable risk-weightings for other asset types and concentration levels. Of primary concern are risk-weightings greater than 100%, which is not the case with Basel III. Why would capital be required at a higher level than the carrying value, especially when there are other risk management regulations in place that are more conservative than bank requirements?

In particular, investments with weighted average lives of over five years are weighted at 150-200% along with certain loan concentration levels with required weightings of up to 200%. We cannot understand why 5+ year U.S. Treasury securities and U.S. Government agency-backed securities would have twice as much risk than auto loans, credit cards and unsecured loans. Furthermore, the increased risk-weightings for higher concentration limits on real estate and business loans will dis-incent credit unions to help our members and will drive them to banks. There are already other regulatory limitations in place to mitigate undue concentration risk. The collateral features of these assets are also much stronger than consumer loans.

While it is apparent that one of the NCUA's goals is the integration of interest-rate risk into the RBC framework, there is not a fair or complete attempt to do this. In the proposed rule and related risk-weightings, there is no consideration of balance sheet liabilities and other off-balance sheet items that are utilized to manage and mitigate interest rate risk created from asset duration. The combination of core member deposits, term certificates of deposit and borrowings provide a hedge against rising interest rates. The use of derivatives and the value of mortgage servicing rights also provide risk mitigation. Without this consideration, the proposed rule can easily overestimate interest rate risk and require an unnecessary added capital burden. Again, this is not in the members' best interest, as it will lead to the avoidance of longer-term assets in many credit union business strategies. This will reduce the consumers' choices for loans. It will also restrict the credit unions' capabilities in generating higher profit levels that would be required in meeting these more stringent, proposed capital limits.

The proposal to deduct certain items from capital in the RBC calculation should also be reconsidered. As of December 31, 2013, approximately \$11.2 million, or 10.3%, of our capital is excluded from the proposed RBC calculation, due mostly to the NCUSIF deposit and also goodwill. If these items were not deducted, our RBC ratio would be 15.50% versus the proposed new ratio of 13.98%. There are no deductions for similar items within the Basel III framework. As part of this rulemaking process, the NCUA should also consider the addition of supplemental capital rather than the continuation of only allowing retained earnings to build capital.

Finally, we disagree with the NCUA's ability to arbitrarily require a higher minimum RBC ratio for individual credit unions, on a case-by-case basis. Such authority would be over and above the objective risk-weighting system implicit in the proposal. As such, the NCUA's determination of whether a credit union would be subject to an individual minimum capital requirement would be highly subjective. This will create confusion and inconsistencies in the application of a standardized framework. In addition, authority already exists for the NCUA to require additional capital under its current enforcement powers.

In closing, if this proposed RBC rule is adopted, it would undoubtedly take the focus off our members' needs and reduce the benefits they realize as a credit union member. It would place unnecessary emphasis on generating a higher profit level and would have negative consequences for the credit union industry as a whole. Over time, it could also cause substantial consolidation in the industry.

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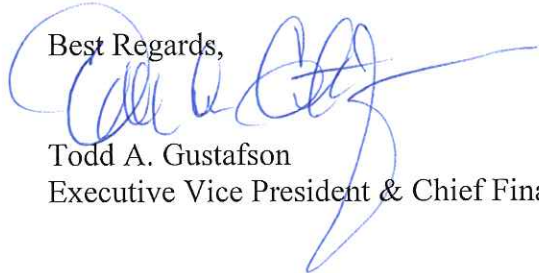
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Given the many concerns with this proposal and the substantial adverse effect it would have on credit unions, we feel the NCUA should re-evaluate its approach toward implementing a RBC framework. We do not agree that a credit union's risk profile warrants such a dramatic and incongruent departure from the Basel III banking framework. In summary, and as stated earlier, this proposal is not in the best interests of our members and creates a wider competitive gap from the banking industry.

Please feel free to contact me with any questions or comments with regard to this response. We appreciate the opportunity to respond and desire to work together in designing an effective solution.

Best Regards,



Todd A. Gustafson  
Executive Vice President & Chief Financial Officer