From:	Darrell Blackbourn
To:	_Regulatory Comments
Subject:	Prompt Corrective Action Risk-Based Capital Comment Letter
Date:	Wednesday, May 28, 2014 5:10:07 PM

Dear Secretary of the Board Poliquin,

May 28, 2014

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

Re: Comment on Proposed Rule: Prompt Corrective Action – Risk-Based Capital

Dear Mr. Poliquin:

As EVP/Chief Financial Officer at Greater Alliance Federal Credit Union I appreciate the opportunity to be a part of the regulatory comment process relating to the Proposed Rule on Risk-Based Capital. With over $163 million in assets, Greater Alliance FCU serves over 18,000 members within the communities of Bergen and Passaic Counties in New Jersey. It is my opinion, and that of the management of the credit union, that this proposal will pose significant complications within the industry. We feel that this rule, as proposed, in many cases will create unintended consequences, stagnating current business plans to further service membership in favor of measures to improve capital. We fear that credit union members will ultimately shoulder the cost of the proposal if it isn't cautiously reviewed and modified as introduced.

While there is an understanding for the need to reform the current Risk-Based Capital System, focusing on concentrations may inadvertently penalize institutions that properly manage and have the expertise in managing their own unique risk profile. With the "bar" being raised from the current capital structure, a credit union that has gone through great efforts to maintain a "Well-Capitalized" position may be faced with the need to alter their direction despite having managed a healthy risk profile through a difficult financial landscape. Understanding that a majority of credit unions maintain significant capital and ultimately won't be directly affected by the proposal, a sizable portion of credit unions maintain 7% to 8% capital to be sure members are getting the full benefit of their credit union relationships.

Having reviewed much of the proposed ruling, we have specific concerns outlined within this letter, including:

18 Month Implementation
Due to the implication of this proposed ruling considerable preparations have already been set in motion for most credit unions. We feel that lengthening the implementation period to 36 months will allow credit unions adequate time to reevaluate long-term strategic planning, resulting in less drastic balance sheet management decisions.

Alternate Sources of Capital
As this proposal is modeled after Basel III for Small Banks it is significantly important to note that credit unions are not structured the same way, and do not have access to capital in the same manner. It is recommended that despite this proposed ruling being modeled after a banking system, it considers the impetus coming from an industry that did not fare as well as credit unions during the most recent financial crisis. Sources of capital within our industry are not as easily acquired and it may not be

equitable to present a more conservative stance than a plan developed for banks. We recommend that several of the weighting factors be reviewed and applied more liberally.

NCUSIF deposit reduction
We are not sure the reason to reduce capital by the NCUSIF deposit in the calculation of Risk-Based Capital.

Small Credit Union Exemption
The exemption of small credit unions is acceptable as outlined, but many credit unions under $50 million in assets may pose a need for future merger partners. Risk tolerances not being measured may preclude a smaller credit union from a viable merger due to this exemption. We are not recommending changes to this exemption, only that the NCUA consider that; excluding credit unions because their size doesn't necessarily omit them from the rule.

Member Business Lending
It appears that the NCUA is preparing for an increase in the Member Business Loan Cap of 12.25% by applying factors for MBL's over 15% of assets. While we are in favor of helping credit unions increase their community footprint by offering more member business loans, we must recommend that segmenting this category may be more beneficial if attempting to ease credit unions into increased lending of this type.

Investment in Credit Union Service Organization
Weighing investments in CUSOs 250% appears to be excessive and we are not sure the NCUA considered those credit unions that have ownership in CUSOs accounted for utilizing the equity method. Successful CUSOs could equate to significant revenue streams. We recommend that this proposed risk weighting factor be reduced as many credit unions utilize Credit Union Service Organizations to decrease the costs of services that cannot be efficiently implemented internally.

Regulatory Responsibility
We hope that the NCUA considers the burden placed on their staff as many credit unions are downgraded with the implementation of this proposal. Having a specific metric is important and we recommend excluding the discretion of NCUA Examiners with respect to their authority to impose higher capital requirements on individual credit unions. We feel this undermines the framework presented and poses an unknown when attempting to structure a compliant balance sheet.

For the reasons outlined in this letter we must recommend that the NCUA delays implementation of the Risk-Based Capital Proposal as written. There are clearly multiple items that require more effort to get the final rule implemented properly.

Respectfully,
Darrell Blackbourn

Darrell Blackbourn
Executive Vice President & Chief Financial Officer

CC: Glenn Guinto – GAFCU President & CEO
GAFCU Board of Directors

Sincerely,

Darrell Blackbourn
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