peach state
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April 27, 2015

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

Ref: NCUA Risk-Based Capital Proposed Regulation

Dear Secretary Poliquin:

On behalf of Peach State Federal Credit Union, I am writing to comment on the proposed regulation concerning the Risk Based Capital Proposal. We are a federally chartered credit union with over $275 million in assets and 40,000 members. Originally founded to serve those from the education sector, we now serve many other select employer groups in the area. We are proud to support our community by providing scholarships for college, sponsoring a community theater, developing educational programs for youth camps, and providing mortgage financing to veterans through Purple Heart Homes.

I believe that it is unacceptable that the first rule was released with no input by anyone in the industry. I do applaud the NCUA for being willing to make changes to this second iteration of the risk-based capital rule. I still do not feel this rule is necessary to maintain a financially sound credit union system. The small number of credit unions who would be downgraded as a result of this rule is indicative that there is not a systemic risk within the industry. The success of the natural person credit unions relative to the banking industry during the financial crisis should be celebrated. The banking industry should be looking upon the credit union industry for ideas to strengthen their capital requirements, not the other way around.

While I do believe this proposal is improved from the first draft, there are still areas in which I feel it should be improved. First, I don't believe that the proposed calculation should be used to determine whether or not a credit union is well capitalized. I think the leverage ratio serves this point. Second, the unconsolidated CUSO investment risk weight is still too high at 150%. CUSOs are a way for credit unions to collaborate and share risk, and being penalized from a risk weighting standpoint will cause some credit unions to take additional risk by undertaking a project alone or failing to offer a product or service to its membership. Finally, the 1% NCUSIF deposit should be included in the risk-based capital calculation. This money is available to the credit union in the event of insolvency or in the conversion to a bank, so it should be included in the calculation.

In response to the NCUA's request for comments on alternative approaches to account for interest rate risk, I would first like to state that I do believe removing the interest rate risk component from the risk weightings for investments was appropriate. I believe that prior guidance regarding institution-specific assumptions and limits is still the best method. Although it leads to additional work on our part to continually test these assumptions, it allows us to get strategic benefit from our ALM reports. I believe a set of blanket assumptions would reduce the effectiveness of our ALM process, causing resources to be driven more to the "regulatory interest rate risk" measures as opposed to our institutions interest rate risk measures.

To conclude, I believe any risk-based capital calculation should be used internally by the NCUA to determine what specialists, if any, may be beneficial to conduct a proper exam of an individual credit union. Metrics such as this can help the agency more efficiently manage their resources. Until certain restrictions on credit unions are lifted, such as the member business loan cap, I do not see much value of the calculation being used as an additional way to test capitalization requirements.

Again, thank you for providing us with an opportunity to comment on the proposed rule.

Sincerely,

Michael F. Santoro II, CFO
Peach State Federal Credit Union