April 22, 2015

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22134-3428

RE: Comments on Proposed Risk Based Capital Rule, RIN 3133-AD77

Dear Mr. Poliquin

On behalf of the management of America First Federal Credit Union (AFFCU), I would like to express appreciation for the opportunity to contribute to the National Credit Union Administration (NCUA) board's request for comments on the most recent proposed risk based capital rule (RBC2), which the board issued on January 15, 2015. I also recognize and appreciate the NCUA's efforts to meet with and listen to feedback from individual credit unions on this proposal. While it is a clear improvement over the prior proposed rule, it is our assessment that several concerns remain.

America First is one of the nation's largest credit unions with assets of $6.7 billion and membership exceeding 680,000. The credit union has been in operation for 76 years, and over that time its experienced leadership has managed the organization through a wide range of economic conditions, including the severe challenges brought on by the recent Great Recession. During that period our management team worked closely with the NCUA to complete four emergency mergers with failing credit unions that did not survive the downturn; all the while providing our members with flexibility and solutions to help them recover from their individual financial stresses. In spite of the extremes of the economic collapse, our team successfully managed the credit union through that period under existing capital regulations.

Therefore, as we assess our experience of the past five years, along with analyzing challenges faced by all financial institutions, it is our opinion that the current capital requirements and regulations are more than adequate to allow the vast majority of credit unions to successfully navigate severe recessionary periods. Under the current capital regulations the vast majority of credit unions were able to help millions of members survive personal financial difficulties. Also, under the current system, credit unions could choose to utilize capital to provide financial relief to members without being restrained by additional, unnecessary regulation and capital requirements.

Through the process of offering healthy credit unions the opportunity to participate in emergency mergers with credit unions that did not survive, members of those failed credit

unions were not left without access to a sound financial institution during difficult times. Based on the success that AFFCU and the credit union industry in general experienced, in comparison to the banking industry, we suggest that current NCUA capital regulations are sufficient. Current regulations provide the needed flexibility for credit unions to maintain a focus on the financial well-being of members during financial stress, while achieving the necessary level of safety for the insurance fund.

It is the combination of the success we experienced from working through difficulties with our struggling members, as well as the stability of the insurance fund, that leads us to conclude that there is no compelling reason to add additional capital requirements or regulations. AFFCU asserts that the status quo is sufficient to ensure the survival of the insurance fund and also provide flexibility for credit union management teams to fulfill the industry's mandate to be a help and resource for members that find themselves in difficult economic situations, especially during recessionary periods.

The structure of the new regulation also raises concern that there is an underlying desire to bring a new risk-based capital regulation that is patterned after the model used by banking regulators. For years the credit union industry has emphasized the difference between credit unions and banks, specifically our ability to focus on members rather than profits. It appears that a number of NCUA initiatives undertaken since the recent financial crisis appear to be driven by the desire to achieve parity with banking regulations and practices. This thought process strikes at the very heart of the credit union philosophy of people helping people and moves in the direction of refocusing credit union management teams on maximizing profits (and therefore capital) rather than helping members. It has been our experience that the trust cultivated with our members during their financial challenges actually benefits the credit union during periods of financial stress. For example, even in some of the most difficult bankruptcy situations, many members choose to reaffirm their debt with the credit union in order to remain a member. They have told us that this is due to our willingness and ability to work with them on their loans when things are not going well for them.

Subsequently, it is clear that the credit union model results in less impact to the insurance fund than would the banking model. It is the inherent differences in priorities and motivation that are the key to our industry's enhanced performance over banks. This is not only true for the last economic cycle but for previous recessions as well. Credit unions do not achieve the same high levels of profits during good times, nor do they experience the low levels of earnings as banks do during difficult times. This is a clear indication that the credit union model encourages lower levels of risk and credit union managers are managing their balance sheets more moderately than banks. Now is an important time to put our efforts into enhancing the credit union charter's natural distinction as a not-for-profit, rather than blurring the differences between credit unions and for-profit banks.

Credit unions are not banks nor are they bank-like. Their unique cooperative structure, strong member focus and absence of investor-driven motives result in a management style that is inherently adverse to high-risk management. Due to this moderate-risk focus AFFCU

maintained capital above the well- capitalized level even when contributions to the insurance fund and other NCUA assessments caused earnings to be negative. Also, due to this moderate-risk approach we were able to continue our strong member growth even during the most difficult years. With this nexus of favorable results it is not only difficult to see the need for additional risk-based capital requirements, but it is also difficult to justify the decision to require higher, bank-like risk-based factors.

It appears to AFFCU that the credit union industry as a whole has demonstrated the ability to measure, monitor and manage risk even through extreme economic conditions. Its focus now should not be to clone a bank model but to analyze its recent experience and devise measurement and monitoring tools that would provide guidance to management teams in the future and lead to even better performance for credit unions over banks.

As was mentioned previously, AFFCU has been directly involved with the NCUA over the last five years in the resolution of four emergency mergers. As we have examined the reason for those failures, it was clear that any additional amount of capital that would have been required by this proposal would not have altered the outcome of those failures. In recent months we have again worked with the NCUA to merge with a fifth failing credit union. It is our belief that the NCUA's ability to connect struggling credit unions with potential merger partners is the best solution for everyone. It appears to us that if strong credit unions are able to provide weakened credit unions not only with capital but other important resources and expertise through mergers, there would be less impact on the insurance fund and better outcomes for the affected members. In addition, by working with each other we would increase the distinction between not-for-profit and profit-driven institutions. This strengthens our belief that there is no need to add additional capital requirements or regulatory burdens to the vast majority of credit unions that have proven through the most severe economic turmoil that they can appropriately manage their capital reserves, absorb members from failing institutions and outperform the for-profit competition.

It is also a concern that the NCUA is considering asset size as the mechanism to determine a credit union's complexity classification. The NCUA should provide a less arbitrary definition for the measure of what constitutes a complex credit union; one that relates to activities that expose the institution to risk beyond the traditional and routine lending and investing activities. The NCUA should articulate individual conditions that alert it to risk concerns beyond the simplistic measurement of asset size.

In the revised RBC2 proposal there is a suggestion that a separate interest rate risk rule is needed. Our opinion is that there are already multiple rules and letters that adequately cover this area. The current regulations and requirements should readily provide sufficient information to the NCUA as to which credit unions may or may not be exposed to excessive interest rate risk. During the examination process the NCUA is able to use subject matter experts to resolve excessive risks to the insurance fund. America First uses a sophisticated financial forecasting tool to model its exposure to interest rate risk. Our experience over time has proven the efficacy of this approach, and in using such a model our actual results have

consistently remained within the parameters we have set, even when interest rates have moved by more than 300 basis points in a short period of time.

We acknowledge the NCUA's willingness to take the time to consider the industry's concerns related to the implementation of any new regulation. We also appreciate the additional time provided to discuss the real need for any change to our capital requirements. While strongly opposing the capital adequacy requirements in RBC2, we do understand how critical strategic capital planning is to the success of any credit union. These plans must take into account the credit union's desired long-term capital ratio, which will depend on the credit union's risk assessments and risk appetite. Such plans are individually unique and one size cannot fit all. We can see the use of the proposed risk-based capital measurements as a tool to monitor the point at which a specific credit union may exceed appropriate risk levels. However, AFFCU is not convinced that this proposed model, which tries to emulate the for-profit environment, will result in an improvement to the non-for-profit industry. We should only adopt this proposal if it enhances the credit union model; even though the alternative risks occasional future failures. Our contention is that credit unions are better able to manage risk under existing regulations while focused on the financial well-being of their members rather than under a model copied from the for-profit banking regulators.

Sincerely,

Rex L. Rollo
Executive Vice President/CFO
America First Federal Credit Union