

April 29, 2014

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

MAY12'14 PM 2:32 BOARD

Franklin Mint Federal Credit Union
Charter: 20042
RE: NCUA Risk Based Capital Proposal

Franklin Mint Federal Credit Union has reviewed the proposed risk-based net worth capital rule and although we appreciate the need for a more refined capital rule, we believe there are several enhancements to the proposed rule that would make the ruling more equitable and balanced across the credit union industry.

First and foremost, we believe that, a capital "increase" requirement should be part of an "Act of Congress" and not a mandate by a Federal Regulatory Agency. By bringing this capital matter to Congress, it would provide an opportunity to address other changes that would benefit the credit union industry by putting together a package that could include such items as:

- 1) Increased commercial lending limits or removal of all existing limits
- 2) Allow for alternative forms of supplemental capital
- 3) Eliminate restrictive membership rules such as community charters and Select Employer Group requirements

NCUA as the regulator would still have the responsibility to monitor and regulate the above referenced items and establish regulatory limits as necessary. Pursuing a separate regulatory capital regime without congressional approval and one not comparable with the current net worth requirements under Prompt Corrective Action (PCA) as approved by Congress in 1998 is, in our view, inappropriate.

Based on the current Risk Based Capital proposal, we believe the following items must be addressed and remedied:

NCUSIF Deposit

Under the proposed rule, the NCUSIF deposit is deducted from assets and equity which implies that the deposit itself is worthless. If one of the primary objectives of the rule is to establish boundaries for identifying risks to the share insurance fund, this provision shows that the NCUA believes this deposit has a market value of zero and should be expensed by all credit unions. We cannot believe that this is the agency's intent and ask for the NCUSIF deposit to be treated more consistently with its historical treatment.

Lack of Credit Risk Consideration

The proposed ruling is set up as “one size fits all” as it relates to risk rating of loan portfolios. There is not enough consideration for credit risk in the proposed rule. We believe there should be lower ratings for portfolios that have a consistent history of low delinquencies, charge-offs and quality underwriting. Our credit union specifically has shown historically “better than average” delinquency and charge-off ratios, however, due to our higher than average concentration in real estate lending, our capital rating will fall from “well capitalized” to “adequately capitalized”. A more accurate method to measure risk should include a two to five year charge-off average, thus rewarding credit unions with superior loan quality and performance. A credit of 50 basis points in each concentration category based upon the charge-off average would recognize credit risk and solid management performance in this crucially important risk arena.

Investments Changes

Under the proposed rule investments that exceed five years in maturity have a risk rating of 150% which seems excessive. This rating seems to incorporate a small element of risk for interest rate risk; however it does not have any consideration for the credit risk of securities (e.g. private label vs. government backed). We believe that due to limited risk inherent in our portfolio, consideration should be given to credit risk where principal loss is unlikely.

Investments Clarification Needed

NCUA Calculator - Based on the NCUA calculator, it does not appear that Agency securities or SBA securities are weighted properly. The proposed rulemaking states that “U.S. Government obligations directly and unconditionally guaranteed by the full faith and credit of the U.S. Government, including U.S. Treasury bills, notes, bonds, zero coupon bonds and separate trading of registered interest and principal securities” will have a zero risk rating and that “Loans guaranteed 75% or more by the SBA, U.S. Department of Agriculture, or other U.S. Government agency” will be rated at 20%. Both of these items do not appear to be carved out in the NCUA calculator. To have a clear picture of the impact on our credit union and the credit union industry as a whole, this needs to be available and measurable.

SBA Securities - Based on the above comment regarding SBA securities, the guidance does not dictate how a SBA security would be weighted if it is 100% guaranteed. We believe these should be weighted at zero percent.

GNMA Securities – The proposed rulemaking should be explicitly clear and dictate all types of securities that are considered backed by the full faith and credit of the U.S. Government, specifically related to GNMA securities. We believe these securities should also be weighted at zero percent.

Investment in CUSO Organizations

We see no justification whatsoever under the proposed rule for risk rating investments in CUSOs at 250%. CUSOs have historically shown that they can provide substantial savings to credit unions and can also be well capitalized. This rating treats all CUSOs the same and considers them all to be more risky than any loan or investment. Our credit union has the majority of our CUSO investment(s) in a wholly

owned twenty eight year old CUSO that is well capitalized, it has shown years of positive income and its equity balance is comprised of almost 100% earnings from past years. Based on the investment in CUSO balances we hold, we believe there is substantially no risk to the share insurance fund and believe this risk rating should be absolutely no more than 50%. The formation of CUSOs has been encouraged throughout the Credit Union industry as a means to collaborate and improve efficiencies. The proposed ruling appears to look at these in an undeserved negative light and fails to recognize the differences between CUSOs types, structures and the risk involved in the services offered

Mortgage Servicing Rights

Similar to investments in CUSO organizations, we believe weighting mortgage servicing rights at 250% is excessive. Mortgage servicing rights are recorded in accordance with Generally Accepted Accounting Principles and, if done so properly, pose minimal risk to the balance sheet. Additionally, by weighting these assets at 250%, it deters credit unions from serving members by providing mortgage products while eliminating interest rate risk from the balance sheet at the same time.

Examiner Imposed Capital Levels

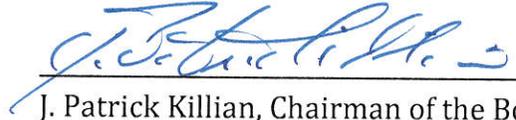
We do not agree that individual Examiners or Supervisory Examiners should be allowed to subjectively impose higher capital requirements for individual credit unions. Currently examinations are not 100% equal based on the examiners assigned and allowing those examiners to subjectively impose higher limits would be inequitable and inappropriate. We believe the power of requiring higher capital levels should reside with the NCUA Board only. A credit union must know where the goal posts are fixed and be in a position to manage to those goals when established in regulation. To allow an individual examiner the authority to subjectively change the goal posts established in regulation is poor public policy and provides a lack of clarity to the regulated institutions that will serve to make management to expected outcomes virtually impossible.

Phase in Period

Lastly, the proposed risk-based net worth rule has a timeline of twelve to eighteen months before it must be implemented by credit unions and enforced by NCUA. This does not appear sufficient to adequately re-position the balance sheets of most credit unions. If comparability with the capital standards of other regulated financial service providers is a stated goal of this regulation, comparable time should be allowed to bring the institution's balance sheet into the opportunity for maximum compliance. We recommend an implementation and enforcement date no less than thirty-six months from the time of final NCUA Board approval.

Thank you for the opportunity to express our views and make our recommendations on this important regulatory proposal. On behalf of Franklin Mint Federal Credit Union, please do not hesitate to contact us if we can provide additional information in support of our position on this matter.

Respectfully,

A handwritten signature in blue ink, appearing to read "J. Patrick Killian", written over a horizontal line.

J. Patrick Killian, Chairman of the Board
Franklin Mint Federal Credit Union

A handwritten signature in blue ink, appearing to read "John D. Unangst", written over a horizontal line.

John D. Unangst, President/CEO
Franklin Mint Federal Credit Union