



May 28, 2014

Gerald Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 55314-3428

Sent electronically to: regcomments@ncua.gov
RE: RIN 3133-AD77

Dear Mr. Poliquin,

We appreciate the opportunity to comment on the National Credit Union Administration's proposal concerning risk based capital requirements for federally insured credit unions. We were disappointed to not have been given additional time to prepare and submit comments. Credit Union of America is a Kansas chartered credit union insured by the NCUSIF. We serve education related members in Kansas and residents of eighteen counties in central Kansas. We serve over 52,000 members, with assets of \$565 million. Credit Union of America maintains a net worth ratio of over 12% and will currently easily passed the NCUA's proposed risk based capital requirements. We are commenting not only on behalf of CUA, but also for what we think is the betterment of the credit union industry as a whole. We want a strong and safe credit union industry that is positioned to serve the general and also unique needs of members and of US consumers and small businesses.

To get to the point and summarize our concerns with the proposed regulation on risk based capital overall we find the regulation to be materially flawed in many areas and of questionable value overall in improving the safety and soundness of credit unions. We believe this regulation is overall unnecessary as proven capital requirements are in place and NCUA has more than adequate regulatory authority to monitor and insure safe and sound practices, the accumulation of capital and the management of risk.

There does not appear to be any quality data or research by NCUA to support this move to risk based capital, which might sound good in theory but lacks a proven track record. This is seen by the fact that US banks have operated under a risk based capital regulation for many years and the failure rate of banks still exceeds credit unions. Risk based capital, along with many other banking regulations, were in place in 2008 when our money center banking industry all but collapsed and required a federal bailout. It seems clearly inappropriate to turn to this sector for lessons and examples of capital requirements and regulatory structure. Under the Act, NCUA is charged with considering the unique

Wichita Metro Area
Mailing Address
P.O. Box 47528
Wichita, KS 67201-7528
316-265-3272
1-800-256-8049

Corporate Office
650 S. Westdale Drive

West Douglas
711 W. Douglas

North Rock
3605 N. Rock Road
Suite 101

Woodlawn
501 N. Woodlawn

East Harry
10222 E. Harry

South Broadway
5055 S. Broadway

Ridge Road
212 S. Ridge Road

Maize Road
1401 N. Maize Road

21st Street
11858 W. 21st Street

Via Christi
St. Francis Campus

Derby
620 N. Baltimore
Suite D

Goddard
19991 W. Kellogg Drive

Great Bend, Kansas
Mailing Address
P.O. Box 1368
67530-1368
4708 W. 10th Street
620-792-2554
1-800-256-8049

cuofamerica.com

structures of credit unions, but NCUA has in fact mostly taken the failed banking model for risk based capital and made it more stringent, draconian and flawed.

If a quality risk based capital model is desired and beneficial to the long term safety and success of the credit union industry, then it should not be punitive and put credit unions at a disadvantage competitively with community banks. Therefore no risk weightings should be higher than those of community banks. The proposed regulation has co-mingled and confused credit risk, concentration risk and interest rate risk in an inappropriate manner, bringing into question whether NCUA truly understands the unique nature of risk of these various elements. The credit union industry has a good track record over the last two decades of growing capital even in very challenging economic times, but accumulation of capital in the credit union model is a long and slow process in the best of times. This regulation's window for credit union compliance at 18 months is unrealistic and again uncompetitive to the banking industry's nine year window, whose capital model also allows for fast capital acquisition.

Although Credit Union of America is currently well-positioned with capital and an ability to meet risk based capital requirements we are no less troubled by the limitations on our strategic decisions and the regulatory burdens it would cause. We believe assisting members acquire quality housing is an important strategy but these risk based capital rules would put us at a competitive disadvantage with community banks and limit our ability to serve this important consumer and member need. Quality mortgage lending coupled with reasonable interest rate risk management is a great member service and business model strategy for us. We have ownership in a very strong and successful mortgage CUSO that also supports this strategy and the treatment of our capital investment at a 250% risk weighting is punitive, especially considering our initial investment (true cash at risk) of \$400,000 would now require risk weighting calculation of over \$12 M. CUSOs are an important structure for creating innovation and collaboration in credit unions and NCUA regulation should be encouraging these joint ventures and creative growth opportunities.

We are also supporters and investors in our local corporate credit union, Kansas Corporate Credit Union and object to the treatment of our perpetual capital at a 200% risk weighting. This is compounded by the fact that the corporate will not be allowed to count 100% of this perpetual capital as capital under current regulations. We get at least twice the appropriate risk rating and the corporate gets half or less of the capital value. This is again punitive and detrimental to rebuilding a strong corporate credit union system and partner, so that our credit union can utilize a cooperative solution for our correspondent banking and investment service needs.

The proposal as drafted is short-sided, as it only applies to half the balance sheet and ignores funding strategies that are sound practices for managing interest rate risk. Focusing on assets to determine the needed level of capital without the regard for the liability structure is a poor design and penalizes credit unions that actively manage their liability structure to mitigate risks.

Finally, we strongly object to any additional opportunity to create more arbitrariness and subjectivity in regulatory or examiner authority. Credit Unions should be able to know and understand the capital requirement and once it is met and actively managed to go on and focus on serving members, without concern about examiners arbitrarily changing the requirement every year. We all know there is more than enough subjectivity in current exams and examiner findings. The IMCR needs to be stuck from the regulation.

In conclusion, we find so many flaws and questions in this current proposed regulation that we believe it will be difficult to correct and fix and since we believe current regulations provide adequately for oversight and capital accumulation requirements, it is our position that the entire regulation should be rejected by the NCUA Board. If in the future a new regulation in this area should be considered, it should be much simpler in design, better researched and designed with consideration of our comments found above.

Thank you for the opportunity to comment on the proposed rule.

Sincerely,

A handwritten signature in blue ink that reads "Bob Thurman". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Bob Thurman, President