May 21, 2014

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

Dear Mr. Poliquin:

I have been a credit union member for my entire adult life. I appreciate that most credit unions are, at their core, dedicated to improving the financial lives of their members. This is most true at Affinity Federal Credit Union, where I currently have my accounts. I am concerned, therefore, about the potentially negative impact of RIN 3133-AD77, the NCUA Proposed Rule on Risk-Based Capital. If approved as currently written, this rule will impede credit unions' core mission, while also hindering their ability to sustain appropriate capital requirements, prevent future organizational growth, drive a culture of risk avoidance, and create a focus on capital accumulation rather than on serving the financial needs of our members.

Affinity Federal Credit Union has long supported risk based capital using the Basel methodologies, and supports the risk based capital approach that federal regulators enacted for community banks. The focus of this proposal is very different, however, from the Basel III capital requirements, which concentrate on increasing the quantity and quality of capital for banking organizations and address credit risk in the risk based capital requirements. Other risks are addressed through the supervision process, not through risk based capital regulations. It is my concern that NCUA's calculation for risk weighted assets is much more restrictive, and punitive, than the community bank guidelines.

The following are my specific concerns:

Individual Minimum Capital Ratio (IMCR): The biggest and most dangerous proposal is the IMCR. It is totally subjective authority given to examiners and it overrides all risk weighting or leverage ratio outcomes. This part of the rule must be totally stricken and never allowed in any regulatory environment.

Inconsistency with bank calculation of Risk Weighted Assets (RWA): The proposed rule attempts to incorporate multiple types of financial risk exposures into one set of metrics. One of NCUA's goals is to have PCA metrics that address credit risk, interest rate risk, concentration risk, liquidity risk, operational risk, and market risk." Neither Basel III nor the FDIC Interim Final Rule attempts to capture interest rate risk, liquidity risk, market risk, or operational risk in its risk weightings. The bank rules address credit risk in the PCA metrics. FDIC acknowledges that risk exposures and factors other than credit risk may call for an institution to increase its capital levels but employs supervisory assessments, rather than PCA risk weightings, to tailor an individual

institution's required capital to its risk profile. NCUA's approach puts credit unions at a distinct disadvantage to community bank competitors.

Concentration Risk multipliers for real estate and member business loans: NCUA requires increasing risk weights for concentrations in real estate and member business loans. Risk weights increase as the % of assets in these loan categories increase. Credit unions would require 2x the capital relative to bank competitors for each $ of current 1st mortgage exposure over 35% of assets if the concentration risk multipliers for real estate loans are not modified. Concentration above 20% of assets for other real estate exposures above 20% of assets results in 150% of what is required under bank rules.

Interest Rate Risk multipliers for investments: NCUA incorporates interest rate risk multipliers into the investment portfolio. Risk weights for investments increase as a function of weighted average life of the investment. NCUA would risk weight our investment portfolio at 5X what the bank model suggests as the bank model does not include interest rate risk in the calculation of risk weighted assets. Interest rate risk is adequately addressed in NCUA's interest rate risk regulation and is amply analyzed in the supervisory exam. Furthermore, including interest rate in PCR requirements without including the offsetting liability metric is not sound.

Impact on credit availability & competitive disadvantage: Including interest rate risk multipliers for the investment portfolio and concentration risk multipliers for mortgages and member business loans is contrary to the other federal regulator's PCA rules. The concentration risk multipliers on mortgages and member business loans will not only limit supply of these loans but will also impact pricing of loans to members. If banks have a lower capital requirement, they can price differently. Should NCUA be an arbiter in influencing the market's pricing for critical sectors such as mortgages and small business loans? Should NCUA propose rules that will cause credit unions to lose market share and impede their ability to grow and grow capital?

Impedes ability to build capital: The proposed rule creates a bias in favor of consumer loans. It is clear that NCUA prefers assets that are short term and is partial to retail unsecured exposures. This, along with the severe investment portfolio risk weights, will force credit unions down the yield curve to short duration assets and impede the ability to build capital. This overly prescriptive and onerous regulation essentially dictates the credit union's balance sheet structure and minimizes the board and management's ability to take calculated risk on behalf of members or structure an investment portfolio that balances risk and return. That is not the job of a regulator.

CUSOs: The risk weight applicable to CUSOs is flawed. Not only is the 250% too high but NCUA double counts exposure for majority owned CUSOs. Majority owned CUSOs are accounted under the consolidation method of accounting. RBC is based on a CU's consolidated balance sheet and thus, the assets for majority owned CUSOs are already risk weighted. Adding capital based on a schedule that shows unconsolidated results is double counting. In addition, it is contrary to the credit union's DNA-cooperative efforts to serve members and enhance the industry.

Strategic Plan: Under community bank guidelines Affinity has a substantial cushion above both the leverage and risk based capital ratio requirements that qualify an institution as "well-capitalized". Maintaining a cushion above well capitalized is a priority for Affinity's board of

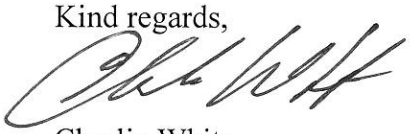
directors. Under NCUA's proposal, the credit union would fall to adequately capitalized for the risk based metric and remain well-capitalized under the leverage/Net-Worth measure. This proposal could result in a modification of our strategic plan and impede our ability to invest in and grow the business in order to serve members today and over the long run.

Numerator: Deducting the NCUSIF from capital assumes that this asset is essentially worthless. Treating this asset as impaired is contrary to GAAP and irrational given that its value is continually preserved through assessments.

The simple solution to all of the problems of this new proposal is to adopt the BASEL III/Community Bank model and completely remove the examiner discretion provision.

While I support the efforts of NCUA to pursue a balanced risk-based capital system, the proposal in its current form is overzealous and results in undermining the value of the credit union charter. I thank you for the opportunity to comment on this proposed regulation, and respectfully encourage NCUA to consider some of the recommended improvements to the proposal contained herein. With the right changes, this rule can become a source of long term viability of the credit union charter. If I can be a source of any further information on this comment letter, please do not hesitate to contact me.

Kind regards,



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