



"Together, we have something special"SM

March 26, 2015

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

RE: Comment on 12 CFR Parts 700, 701, 702 et al.
Risk-Based Capital; Revised Proposed Rule

Dear Mr. Poliquin,

I am writing on behalf of Kern Schools Federal Credit Union, an institution of 162,000 Members and \$1.3 billion in assets, which serves the communities of Kern County, California. Kern Schools Federal Credit Union appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Risk-Based Capital. We also recognize and appreciate NCUA's actions in listening to credit unions' comments and revising proposed rule. Nevertheless, many of our concerns regarding the proposed rule remain.

Firstly, while we are cognizant of the divergent opinions regarding the legality of the proposed rule, rather than belabor the point, we think a better question is, "Do the benefits of implementing the proposal justify the costs to the credit union system?" We do not believe so.

Secondly, we believe this proposal, albeit rewritten, will negatively impact Kern Schools Federal Credit Union's ability to serve our Members today and in the future. The individual risk weightings within the proposed rule, particularly regarding CUSO investments and mortgage servicing assets, directly and negatively impact our credit union's ability to own and operate our CUSO and hold mortgage servicing rights. We believe this to be excessive and indicative of the disproportionate risk weightings remaining in the proposed regulation.

Thirdly, the proposed rule will eliminate goodwill from the capital calculation. We have first-hand experience in this regard as we acquired a troubled credit union for the benefit of the merged credit union members and indirectly, the insurance fund. This aspect of the rule, combined with the fact that the "complex" credit union definition is based solely on asset size and the increased regulatory burden that has harshly impacted smaller credit unions' ability to survive severely affects the ability of credit

Corporate Office
P. O. Box 9506 • Bakersfield, CA 93389-9506
(661) 833-7955 FAX (661) 833-7989
www.ksfcu.org

unions to merge at a point in time where many smaller credit unions will need to merge to survive. In our opinion, the timing could not be worse.

Fourthly, we are pleased the NCUA has eliminated interest rate risk (IRR) from the revised proposal as we believe additional rules regarding IRR are inappropriate due to the unique nature of interest rate risk. If the NCUA deems additional IRR steps are necessary, we would prefer to see these steps addressed in the regulatory, examination and supervision framework.

We are also pleased to see discussion of supplemental capital included in the revised proposal. Clearly we support this inclusion. Notwithstanding the changes in current law that may be required for credit unions to realize supplemental capital, we think this is an appropriate step in the right direction.

Finally, while we noted the omission of individual minimum capital requirements (IMCR) from the revised proposal, as we believe the NCUA has no express authority to proscribe IMCRs, either through rulemaking or the examination process. We strongly believe adequate capital planning-commensurate with risk-is the responsibility of each individual credit union.

In summary, member financial well-being and the safety and soundness of credit unions remain our highest priorities. Accordingly, we manage all risk and appreciate sharing these objectives with the NCUA. While we are in agreement with many of the changes included in RBC2, we still think the proposed rule is costly and unnecessary. As such, Kern Schools Federal Credit Union cannot support this proposal.

Thank you for the opportunity to comment on this proposed rule and for considering our views on the revised risk-based capital requirements. Please feel free to contact me directly should any questions remain or arise.

Respectfully submitted,



Stephen P. Renock, IV
President / Chief Executive Officer
Kern Schools Federal Credit Union