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Anheuser-Busch Employees' CREDIT UNION

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February 27, 2014

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

Re: Comments on Proposed Rule: PCA – Risk-Based Capital

Dear Mr. Poliquin:

On behalf of Anheuser-Busch Employees' Credit Union, please accept this response as input to the above noted proposal relating to risk-based capital. Overall I do agree that the current method utilized to determine the risked based net worth (RBNW) ratio does need to be modified to be more consistent with the methods used in the financial industry and more easily understood. Being in the credit union industry for many years and dealing with NCUA and state examinations, tells me that the examiners and the industry have basically ignored or did not understand the current RBNW ratio. However, with this said, I do have several issues related to the proposed risk-based capital requirements and calculations:

NCUSIF deposit – The Administration needs to reconsider the deduction of the NCUSIF deposit from equity (and from assets denominator). The proposal implies that the deposit is worthless and should be expensed versus the current method of capitalizing the deposit. The proposal also indicates that this does not alter the current accounting treatment; however, this new approach does bring the accounting treatment into question (and we know that the Administration is very reluctant to give accounting advice).

ALLL – The Administration needs to eliminate the cap of 1.25% of risk assets/denominator given the proposed accounting for credit losses recently issued by FASB. There has been speculation that credit union's ALLL could increase over 50% if this proposal is accepted by FASB (as proposed) and as such credit unions will be negatively impacted for risk based capital purposes for complying with GAAP. If this cap was implemented by the Administration as they feel credit unions have an excess in ALLL, then this should be handled by the Administration one-on-one with those "overly conservative" credit unions.

Investments – basing the weighting on years to maturity only captures the interest risk portion (but only to a degree for fixed versus variable). It does not take into consideration the credit risk portion (i.e. agency backed versus private label). In addition, the weighting for a security that has a life of 5-10 years at 1.50 seems extreme for a credit union that would be subject to these new requirements as they should be following investment accounting principles and a majority of the investments would probably be held in the available for sale category that requires market value recording of the investments.

Loans – Lumping all non delinquent first mortgage loans into the same category with a risk weight of .50 (for the first 25% of assets level) is unwarranted given the many characteristics of real estate lending and the associated risks. Consideration should be made for fixed versus variable rates, maturities over 15 years, new Consumer Financial Protection Board regulations for ability to pay and qualified mortgages, and for jumbo. And to continue on from the previous paragraph, a .50 risk weight for a 30 yr mortgage in my portfolio is such a huge disparity from the 1.50 risk weight of a MBS that has an average life of 7 years.

Member business loans – assigning more risk for member business lending in excess of 15% of assets has no basis, unless the waiver process (numerous waivers are available from the Administration related to member business lending) serves no benefit to address the additional perceived risks in the eyes of the Administration. The current member business loan cap that is in place (12.25% of assets) requires Administration waivers to exceed and, as such, extra Administration scrutiny should follow.

Investments in CUSOs – weighting investments in CUSOs at 2.50 is basically saying that the recently released CUSO related rules will serve no benefit from a risk standpoint. There are many profitable, well capitalized CUSOs and to rate them all the same is not reasonable.

Mortgage servicing rights - weighting MSRs at 2.50 is penalizing those credit unions for eliminating interest rate risk from maintaining longer term real estate loans in their portfolios while still retaining the member relationship. If properly accounted for and valued, MSRs have minimal risk.

Liabilities – the liability side of the balance sheet is entirely ignored. Risks (or the mitigation of risks) exist on this side of the balance sheet too. From the mix of deposits, to core deposit lives, to long-term borrowings/advances, etc.

Off balance sheet – unfunded commitments are included in the assets denominator, which I can agree with, except that the 75% conversion ratio for unfunded business loans is extreme. Consequently, not given consideration for the liability side of off balance sheet items to offset some of this risk or other risks, needs to be considered for lowering the assets denominator.

The Administration is estimating a timeline of 12-18 months for implementation. This timeline expectation should be extended to allow credit unions the time to position their balance sheets accordingly. In addition, it appears that call report information will need to be expanded/modified to properly capture risks associated with assets and liabilities in more detail. Please note, I do not agree with additional regulations or expansion of the call report, but it will be necessary to appropriately capture risk.

Respectively submitted,

Ronald Kampwerth, CFO
Anheuser-Busch Employees' Credit Union