March 28, 2014

National Credit Union Administration

1775 Duke Street

Alexandria, VA 22314-3428

RE: Comment for Prompt Corrective Action—Risk-Based Capital; Proposed Rule; 12 CFR Parts 700, 701, 702, 703, 713, 723 and 747

This letter is a response to the proposed rule. My main concern with the proposed rule is the inclusion of a subjective measurement. By definition, a subjective measurement will vary from credit union-to-credit union, examiner-to-examiner, and region-to-region. This lack of consistency will open the door for unintended examiner bias and significantly detract from the value of peer data.

There is no description of which individuals will be making the subjective measurements, which metrics will be considered for measurement, or how those measurements will be made, approved or monitored. To make a simplistic illustration, this proposed rule provides a way to put a hole in the bucket, but does not provide any directions afterwards.

That would not be an acceptable way to make strategic decisions within a credit union, so it should not be an acceptable way to regulate a credit union. If it were approved as it is, examiners could unwittingly hijack a credit union's future capitalization plan for many years.

In that same vein, if subjective factors can be determined and adequately measured, it takes a very experienced professional to interpret those results. A field examiner with 5 years of experience, onsite to conduct a 12 month examination, does not have the expertise to make a high-level decision based on subjective measures. Additionally, the information gathered in a 12 month examination cannot encompass the global risk of a credit union that has been operating successfully for several decades. The focus of a 12 month examination is to look from exam period to exam period. Subjective measures extend far beyond this sort of cursory year-to-year review. If subjective measures are going to be made and properly converted into an action as severe as additional capital requirements, that will require a thorough long-term analysis of each credit union. That sort of analysis would need to be conducted by a highly trained and experienced team of individuals who are free from having to focus on the short-term 12 month examination and able to focus on the long-term viability of our institutions.

If there are going to be additional risk factors measured and factored into the risk-based capital formula, the logical step to take would be to list all possible factors and the related risk weights. If not handled in this manner, examiner judgment could create a risk factor with more weight than those risk components listed in the proposed rule. Credit unions could be subject to those created factors, without the opportunity to review and provide comments on their impact.

In closing, I would like to end with a question:

> How will the NCUA consistently manage a nationwide group of examiners to ensure that each and every subjective measurement is consistently applied, in every situation?

I do not feel there is currently a way for the NCUA to adequately manage the unintended risk of examiner bias and inconsistent reporting. With inconsistent reporting, accurately measuring the risk to the NCUSIF is not possible. If the NCUA feels there is a way to manage that risk, those details should be documented in a revised proposal and distributed for comment.

Sincerely,

Jeremy Hinton, CPA

SVP/CFO