AUSTIN TELCO
FEDERAL CREDIT UNION

April 17, 2014

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428
regcomments@ncua.gov

RE: Comment Letter – Proposed Risk-Based Capital Rule

Dear Mr. Poliquin:

This letter represents Austin Telco's official comment regarding the proposed risk-based capital rule changes. Austin Telco is a $1.3 billion federally chartered credit union based in Austin, Texas that serves over 73,000 members. Austin Telco currently maintains a net worth ratio that exceeds 10% by continuously following prudent business practices to ensure the safety and soundness of the credit union while maintaining competitive loan and deposit pricing that benefits its entire membership. Even during the economic recession experienced in recent years that created compressed margins, Austin Telco was able to maintain strong earnings by effectively managing all risks associated with its balance sheet. While Austin Telco is supportive of a strong capital base for all credit unions, there are considerable concerns regarding the risk-based approach NCUA is currently proposing. Some of these concerns include:

Basel Standards

The current proposal includes measures for credit unions that exceed Basel III standards for banks less than $15 billion in assets. For instance, in the current proposal, Federal Housing Administration (FHA) guaranteed residential mortgages are assigned a 20% risk weight compared to 0% assigned by Basel standards.

For investment securities with a weighted average life greater than one year and guaranteed by government sponsored entities (GSEs) such as Fannie Mae and Freddie Mac, the current proposal assigns up to a 200% risk weight compared to 20% assigned by Basel standards regardless of weighted average life.

For member business loans, if greater than 15% of total assets, the current proposal assigns a 200% risk weight compared to 100% assigned by Basel standards.

Concentration and Interest Rate Risks

The current proposal includes simplistic and inconsistent concentration levels of credit and interest rate risks by using a risk-based model that does not take into consideration the credit quality and guarantees of the underlying assets. For instance, all security investments are assigned a risk weight percentage based on maturities only. The multiple loan categories utilize a simplistic delinquent/non-delinquent approach. Additional risk management tools and methods designed to appropriately assign risk should be considered.

Overnight Funds

The current proposal does not properly distinguish overnight liquidity deposits maintained at the Federal Reserve Bank and assigns it a risk weight of 20% since overnight funds are classified as investments with maturities under 1 year.

NCUSIF Deposit

The current proposal excludes the NCUSIF deposit from the calculation allowing for a material impact to the final risk-based capital ratio.

CUSO Investments

The current proposal includes a general 250% risk weight for CUSO investments regardless of the type of business activity the CUSO conducts and ignoring the viability of its financial position.

To conclude, the current proposal as it stands should be further reviewed and modified as necessary to ensure the credit union industry will continue to thrive safely and soundly without further unproven regulatory limitations. A test period should be considered in conjunction with an extended implementation timeframe to allow credit unions to further analyze and work with the NCUA prior to any final action.

Thank you for allowing us the opportunity to provide comments regarding this very important regulatory consideration.

Best regards,

Robert Hernandez

Robert Hernandez
Sr. Vice President Finance/CFO
Austin Telco Federal Credit Union