From:	Neil Marshall
To:	_Regulatory Comments
Subject:	Prompt Corrective Action—Risk-Based Capital; Proposed Rule
Date:	Friday, April 18, 2014 1:29:43 PM

April 18, 2014

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.
Prompt Corrective Action—Risk-Based Capital; Proposed Rule

Dear Mr. Poliquin,

I am writing on behalf of Kern Schools Federal Credit Union, an institution of 162,000 Members and $1.24 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, Prompt Corrective Action - Risk-Based Capital.

Firstly, we believe this proposal, as written, will negatively impact Kern Schools Federal Credit Union's ability to serve our Members today and in the future. Notwithstanding the individual risk weightings within the proposed rule, which in many cases appear arbitrary and capricious, the most concerning aspect of the proposed rule is in its limitation for the Credit Union to provide access to credit for our Membership and community.

Our Credit Union has essentially doubled its capital ratio since 2009, the low-point of the great recession. While we are proud of this achievement it has come at a cost to our Credit Union and Members because as we accumulate capital, we do so at the expense of investment.

Now that the economy and our community have begun to recover from the economic downturn, the proposed rule will severely restrict our Credit Union's ability to provide investment via credit and financial services to our Members – most significantly in the areas of business lending and mortgages. Notably CUSO investments, which are an investment in the future of our industry, are assigned a risk weighting greater than a delinquent loan. We believe this to be excessive and indicative of the disproportionate risk weightings included in the proposed regulation.

Secondly, we oppose this proposed regulation because we believe it to be fundamentally flawed. Our view of the proposed rule is that of an overly simplistic rule which fails to address risk in a manner consistent with the existing Basel III rules for community banks. The unintended consequences of the proposed rule include putting credit unions at a competitive disadvantage in the market place.

Thirdly, why is this proposed rule necessary? The National Credit Union Administration (NCUA) has neither adequately justified the need for the rule nor demonstrated it to be specifically authorized by the Federal Credit Union Act. While there is little doubt as to NCUA's primary mission to ensure the safety and soundness of federally insured credit unions, we strongly believe this proposal is not the right approach.

Additional comments/questions regarding the proposed regulation which concern Kern Schools Federal Credit Union include:

- The exclusion of the National Credit Union Share Insurance Fund 1% in the risk-based capital calculation is concerning. What is the rationale for omitting the share insurance fund?

- The risk weightings for Corporate Perpetual Capital, Investments in CUSO's and Mortgaging Servicing Assets are more than twice that of Basil III. Why a punitive risk weighting for these critical assets?

- The unilateral authority to impose higher capital requirements on individual credit unions, even if that credit union is well capitalized, is clearly subjective and emboldens excessive regulation.

- The omission of good will from net worth for purposes of risk based capital, while consistent with Basel III, will nonetheless impede the merger process. (Especially at a time when increasing compliance burden is forcing mergers amongst credit unions.)

In summary, Member financial well-being and safety and soundness remain our highest priorities. Accordingly, we manage all risk and appreciate sharing these objectives with the NCUA. Nevertheless Kern Schools Federal Credit Union cannot support this proposal as written. And while the NCUA's authority in implementing this regulation is debatable, we also believe the regulation can be greatly improved should the NCUA insist this rule is necessary.

We strongly suggest the risk weightings be re-evaluated and at a minimum be brought into harmony with Basel III. We also recommend the implementation timeframe be extended consistent with the FDIC's five-year implementation schedule for banks less than $15 billion in assets. Finally, we urge the NCUA to reconsider implementation of a risk-based capital rule that as written will penalize investment in our Members and community, result in a credit union industry at a disadvantaged competitive position and most alarmingly, render credit unions irrelevant to our Membership at a point in time when consumers need the credit union alternative most.

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

Respectfully submitted,

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