Gerard Poliquin,
Secretary of the Board
National Credit union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Dear Mr. Poliquin:

On behalf of ABNB Federal Credit Union, I would like to comment on the National Credit Union Administration (NCUA) proposed risk based capital rule. I appreciate the opportunity to provide my thoughts on this very far reaching regulatory proposal, to express some of my concerns about the potential negative impact of the proposed rule on credit unions if finalized in its current form and to offer some suggested improvements in the rule for your consideration as you move forward in the rulemaking process.

Risk based capital for credit unions has been on the table for a number of years. The current proposal appears to be overly conservative and unwarranted given the history of credit unions during the most recent economic crisis.

To begin, I believe the risk based capital requirements should be in relation to the adequately capitalized, 6 percent net worth ratio (as the Federal Credit Union Act requires), and not to the well capitalized level of 7 percent -- and risk weightings must be properly calibrated.

Second, credit should be given to credit unions with proven minimal losses in their business lending portfolio. When the Credit Union Membership Access Act was passed by Congress, credit unions chartered for the purpose of making business loans (church credit unions, agricultural credit unions, taxi medallion credit unions, etc.) were carved out from the statutory member business lending cap of 12.25% of assets.

Their purpose was recognized by congressional action. Their concentration in business loans was accommodated as being different from the business loan portfolios of other credit unions. Under the proposal, these credit unions are being penalized tremendously by the risk weighting of business loan portfolios. Their concentration risk is historical and well managed and Congress has recognized their special category for its public purpose - agriculture, churches, taxi drivers, etc. In short, credit unions chartered historically for business loan purposes should be exempt from punitive risk weights for concentrations in business loans.

A similar approach should be applied in the mortgage lending area. The risk weights in the mortgage area are not as punitive as those in the business lending portfolio and there must be some balance put into the risk weights for both mortgage and business loans. Some type of earned credit based upon managed risk performance seems the right way to do so. Any capital or net worth system that does not accommodate the difference in asset risk-based upon the historical performance of the financial institution is flawed and will restrain the growth in reserves it is designed to foster through increased earnings.

This risk-based capital proposal would be much better balanced if a credit to the risk weights could be established with a rolling average to reward those credit unions effectively managing their loan risks - just as it penalizes those that have not been as effective in doing so.

The proposed rule also creates a dual system with statutory net worth requirements under PCA at 7% to be well capitalized and 10.5% of risk weighted assets to be well capitalized. This raises a question of which is the more important of the two ratios and which should have the strategic priority in credit union risk management decisions.

Corporate credit unions have had more regulatory changes over the past five years than any other sector of the credit union system. Additional capital requirements; Stricter investment limits; More concentration risk prohibitions; Governance changes and a much larger examination department with expanded authority to take corrective action. To weight paid-in capital two times more risky than member capital at a corporate credit union seems excessive and provides a disincentive to credit unions investing in their corporate credit unions - at a time when corporate credit unions are working hard each day to build the capital necessary to comply with the new corporate rules.

Most importantly, no rule should afford any greater authority for an individual examiner to impose additional capital requirements on a case-by-case basis. **.** It is absolutely essential that credit unions understand clearly what their capital and net worth expectations will be. Under this proposal, an examiner can increase (not decrease, only increase) a credit union's risk-based capital requirement by subjective action during an examination based upon his or her determination of the need for additional capital versus the balance sheet risk.

In any event, the effective date of the final rule implementation should be end of year 2018. It will likely take until 2015 before a final risk-based capital rule can be approved. Once the regulation is final credit union earnings will have to be balanced with the risk weighting of the assets. Some investments will have to be shortened. Some loans will have to be divested - or at least the position in those loan categories adjusted. Credit unions need a minimum of three full years to prepare for this regulation once it is finalized.

Thank you for the opportunity to comment on this proposed regulation. I support the efforts of NCUA to pursue a balanced risk-based capital system. I do not believe the current proposal is balanced and encourage NCUA to consider some of the recommended improvements to the proposal.

Respectfully,

David R. Krause
Director, ABNB FCU