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May 5, 2014

Gerard Poliquin, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3424

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

Dear Mr. Poliquin,

Cessna Employees Credit Union (CECU) is a state chartered credit union in Wichita, Kansas with assets totaling $230 million. CECU serves employees and retirees of Cessna Aircraft Company, their affiliates, and members of their families. Although the concept of Risk Based Capital is reasonable, our credit union has some concerns regarding the proposed classifications and weightings in the Risk Based Capital proposal of NCUA. Under the proposed formulae our credit union remains well-capitalized, yet would be significantly lower than our current net worth ratio. We offer the following comments on the proposed rule:

<u>Investments</u>
The sluggish economy of the last few years has dramatically impacted the general aviation industry and thus also our membership base. Our members have increased savings and reduced borrowing. The lending environment has been extremely tight. In order to serve our members through these difficult times and yet remain financially strong as an institution, we have been relatively aggressive in retaining yield in our investment portfolio by extending maturities while focusing on federal government agency fixed rate and step-up securities and mortgage backed securities. We have been able to achieve investment returns substantially higher than peer, and have maintained a reasonable spread to our cost of funds. Investing in only federal government agency securities and FDIC/NCUA insured certificates minimizes our credit risk. Our interest rate risk is managed through step features and amortizing agency MBS investments. Liquidity is monitored by laddering a portion of our portfolio in the one to five year time horizon against our expected demand.

The proposed weightings for investments would have a dramatic impact on our Risk Based Capital calculation. The proposed weightings are based solely on maturity, and give no consideration to credit unions that effectively manage other types of risk. Our relatively safe agencies and MBS would be treated the same as more risky investments such as private or municipal issues. Also, our mortgage related investments would be treated far more harshly than our own mortgage portfolio. Perhaps the proposed rule could be amended to allow some reasonable level of investments for longer weighted average lives to be treated with no penalty This would allow some balance of risks between income and balance sheets. Segmenting investment portfolios by a percent to total assets for longer WAL's similar to that proposed for real estate loan portfolios could achieve this result. Weighting 5 to 10 year WAL's at 1.0 or less matches more closely to loan portfolios. Tiering the weights of 10+ year WAL's such as allowing up to 10% of assets at 1.0 (no penalty), 10% to 20% of assets at 1.5, and only over 20% of assets at the punitive 2.0 weighting would better address the issue of concentration.

Investments in Credit Union Service Organizations

The proposed risk weightings do not give any consideration to the purpose of a particular CUSO investment or their underlying assets. As an example, our credit union partners with another credit union through joint ownership of a CUSO that simply provides full service shared branching to our members. The assets of this CUSO are a building, branch equipment and cash. Had these assets been held individually by each of our credit unions as a branch, they would have a weighting of zero or 1.0 rather than the proposed 2.50. Again, the proposed risk weight does not reasonably consider the underlying risk of a particular CUSO.

Summary

Developing some formula for Risk Based Capital makes sense. However, because there is great diversity among individual credit unions, such a calculation cannot be oversimplified. Concentrations within different credit union balance sheets vary significantly as do the ability of each credit union to manage the risks associated with them. The proposed risk weightings focus too heavily on interest rate and concentration risk rather than balancing more with credit, liquidity, market and operational risk as were outlined in the goals of the proposal established by NCUA. In today's world, with interest rates continuing to remain at historical lows, interest rate risk is on the forefront. The Risk Based Capital rules are not simply for the present. Ultimately rates will change and risks will shift. With the penalty of Prompt Corrective Action tied to Risk Based Capital performance, a balanced formula and reasonable threshold should be able stand the test of time and truly reflect the relative risk of a particular institution.

Respectfully,

Larry Damm, President
Cessna Employees Credit Union