April 15th, 2014

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

VIA ELECTRONIC DELIVERY: regcomments@ncua.gov

RE: Prompt Corrective Action – Risk-Based Capital

Dear Mr. Poliquin,

Please accept this correspondence regarding NCUA's proposed rule to establish risk based capital requirements for federally-insured credit unions. By way of background, I am the CAO of Central Minnesota Credit Union, a FISCU with just over 50,000 members and $825,000,000.00 in assets. Chartered in 1939 with a community FOM we have served the needs of our members in rural central Minnesota with a long history of member business lending (significant agricultural component) which represents our highest concentration of assets.

As a contributor to the NCUSIF we support the base concept of a strong share insurance fund supported by a regulatory structure that addresses inordinate risks. Recognizing however that as a financial intermediary with a responsibility to serve the needs of our members, and in so doing appropriately manager risk, not eliminate it, we cannot support your proposal and offer the following comments for your consideration in modifying the proposed rule.

First and foremost is the overall approach of the proposal in regards to risk management. The Summary of the Proposed Rule states "Capital and risk go hand in hand, and credit union senior management, boards, and regulators are all accountable for ensuring that appropriate capital levels are in place based on the credit unions risk exposure". The proposal as drafted lacks recognition of efforts to mitigate and manage risk exposures and relies solely on the very blunt tool of excessively high capital levels. Risk mitigation comes in many forms and must be recognized as a component in determining adequate capital levels.

A stated goal of the proposal is adoption of a methodology that is more consistent with the risk based capital measures used by the other Federal Banking Regulatory Agencies. The proposed change to risk weightings under the proposal does not result in consistent results when compared to the measures adopted for other types of institutions. Central Minnesota Credit Union inserted its 3-31-14 call report data into NCUA's calculator yielding a well-capitalized risk-based capital ratio result of 11.77%. The same data when applied to the risk weightings used under the BASEL III requirement for banks yield a ratio of 16.68%. The desired consistency with the other banking agencies has not been achieved, and the proposal would in fact result in a considerable competitive disadvantage for credit unions like ours who have significant levels of assets in categories that NCUA risk weights more heavily than the other agencies. The proposal should be modified to achieve the consistency you originally sought out to attain, and thereby ensure credit unions are not placed at a competitive disadvantage versus those covered by other Federal Banking Regulatory Agencies.

In calculating the risk-based capital numerator you correctly include the ALLL as a source to cover expected losses, yet you incorrectly limit it to 1.25% of total risk-weighted assets. The reasoning given is that placing a limit of 1.25% will provide an incentive for granting quality loans. No incentive is needed and it is inappropriate to attempt to use incentives in this proposal. Loans are not written with an anticipation of losses. Loans go bad over time, and as you correctly state, complex credit unions are bound by GAAP, and therefore must maintain the ALLL at the appropriate level. By definition then, GAAP requires us to have the appropriate level of protection in our ALLL and its use should not be limited in any way within your proposal. An additional consideration here is the possibility that the FASB Accounting Standards Credit Loss Proposal would significantly increase the required ALLL balance for our organization. The combination of a FASB proposal that significantly increases our required ALLL balance, with the proposed rule capping ALLL at 1.25% of risk assets, would be particularly onerous. The most reasonable approach is to use GAAP as the indicator of the appropriate ALLL value and not limit it in any way.

Another concern is the ability for imposition of an individual minimum capital requirement that could exceed even well-capitalized levels on a case by case basis. The possibility of additional unforeseen capital requirements being imposed would significantly impact the ability of a credit unions management and board to construct and execute strategic and tactical plans. NCUA examiners currently have sufficient tools at their disposal to address areas of safety and soundness and the capability to impose additionally case by case additions should be removed.

Overall, the proposal would literally put a strangle hold on our ability to serve our members in the same fashion that we have successfully and safely done for 75 years. While well intentioned the proposal misses the mark and needs to be reconsidered to address the above mentioned topics. Please redraft the proposal such that credit unions are on an equal footing with our competition and Central Minnesota Credit Union and NCUA are still here 75 years from now working successfully together to meet the needs of credit union members.

If you have any questions about my comments and suggestions, please do not hesitate to contact me at 320-256-1703.

Sincerely,

Bernard Brixius
Chief Administrative Officer
Central Minnesota Credit Union