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FEDERAL CREDIT UNION

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May 5, 2014

MAY12'14 PM 2:37 BOARD

Gerard Poliquin, Secretary of the Board
National Credit Union Association
1775 Duke Street
Alexandria, Va. 22314-3428

Re: Comments on Proposed Rule: PCA-Risk Based Capital
RIN 3133-AD77

NCUA Board:

The NCUA's proposed rule to move complex credit unions to a risk-based capital standard is a step in the right direction as it has the potential to establish capital standards appropriate to a credit union's risk to the NCUSIF. However, left as is, this proposed rule will have significant negative and unintended consequences unless a concurrent secondary capital rule is implemented in conjunction with, or ahead of this rule. Secondary capital is of paramount importance because as the regulations stand currently, net income is the only way a credit union can manage the numerator of the equation. Effectively this means that any new growth of a credit union is financed by the net income generated by the existing members. It hampers credit unions' ability to grow and serve more members.

I urge you to give simultaneous consideration to all three supplemental capital possibilities that were outlined in the **Supplemental Capital White Paper** prepared by the Supplemental Capital Working Group dated April 12, 2010 by Christiane G, Hyland, NCUA Board Member. In said publication, addressed to Chairman Matz and Board Member Fryzel, Hyland did an excellent job of outlining policy considerations, safety and soundness, and most noteworthy, modeling the impact and its potential benefit to the health of all credit unions.

Beyond the general concern for increasing capital requirements without also providing additional means of raising capital, there are several aspects of the proposed regulation that place undue capital requirements on various aspects of the credit union's balance sheet.

Of paramount concern in the proposed regulation is that the definition of "cash", according to GAAP, extends beyond coin and currency. Yet the 5300 report and the RBNW calculator use this limited definition. The result of not including operational liquidity in the definition of cash requires that we hold RBNW capital for our transaction accounts at the Federal Reserve Bank and other institutions that are already in another institution's net worth RBNW as well as backed with a federal guarantee. Further, by simply categorizing federally guaranteed investments based on years to maturity, only interest-rate risk is being captured, and not very accurately.

The RBNW requirements for investments in CUSOs also seem excessive. A successful, wholly-owned CUSO generating significant net income will result in an increased investment in the CUSO on the credit union's books. We find it hard to fathom that NCUA would penalize the success of a CUSO by requiring that the credit union reach into its pocket and set aside additional capital on the profits earned by the CUSO. Not all CUSOs are created equal and many are far less risky than implied by requiring the owners to hold a 21% capital reserve on their investment.

It would be extremely helpful to have further explanation on what risk is mitigated by each line item as well as how the risk weighting ratio was derived. For example, it is classified as more risky to hold retained earnings in a CUSO than to have loans that are two or more months delinquent.

Finally, 18 months is a very short time to come into compliance with this rule as our means for increasing capital are very limited. We again request that a secondary capital rule and a longer implementation period be considered simultaneously.

Respectfully submitted,

John Beiler
President & CEO