



**SHAREFAX CREDIT UNION, INC.**

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May 14, 2014

National Credit Union Administration  
1775 Duke St,  
Alexandria, VA 22314

Dear Secretary of the Board,

Sharefax is a state chartered credit union and represents over 29,000 members in southwest Ohio. I am writing this letter to express my and our members' deep concern over the proposed rule as currently written to change the risk based capital calculation and the impact that it will have on our credit union. I do not dispute the need for some changes in our current formula for calculating required capital. However, there are three areas that completely go beyond any reasonable regulator's need to impose their authority and impede the ability of the credit union's executive team to manage their own risk.

The first area of concern is the risk weights being proposed that exceed anything imposed upon other financial institutions under Basel 3. These extreme risk weights are an obvious attempt to micromanage credit unions' interest and liquidity risks without utilizing an ALM modeling tool or take into consideration offsetting long term liabilities to the risk calculation. This approach is completely ludicrous. If such a complete lack of analysis was uncovered in any NCUA regulated credit union, a Document of Resolution would have resulted forcing the credit union to invest in outside asset liability management resources. This proposed rule would limit a credit union's ability to utilize its own ALM expertise to determine interest rate & liquidity risks and take much of these decisions out of the hands of professionals and placed at the mercy of a mathematical formula. Decisions; such as whether to implement a commercial lending program, join a corporate credit union with required perpetual capital, or invest in a CUSO, would now be controlled by the impact on the risk based capital ratio. The credit union's lending & investment strategies would in all likelihood also be modified to adjust to the proposed rule. Decisions whether to invest in laddered longer term maturities or hold mortgage loans would be filtered through a risk based capital calculator instead of being determined by ALM software. The impact on credit union operations from this proposed rule will be significant and I believe much more than even NCUA intended.



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My second area of concern from the proposed rule is allowing individual examiners to arbitrarily increase the capital ratio when, in their minds, other factors result in more than acceptable risk especially when considering how vague the adjectives are that were used in the draft. Words; such as inadequate, weak, poor, and deficiencies; are not quantified and completely subjective to one's interpretation. This is ridiculous and will certainly become extreme confrontational issues during an exam. How can the term "comprehensive understanding" result in a 1,250% risk weight on asset backed securities when "comprehensive" is not defined? Are you kidding me? This clause in the proposal gives such wide latitude to the examiner that annual examinations will now become battle zones where the rule's definitions and examiner's authority are fiercely debated.

Finally, although there is an appeal process described in the proposed rule, the onus is on the credit union to make a case why a higher reserve dictated by an examiner should not be imposed. However, the appeal process and final decision are controlled by NCUA and its supervisors, whose decision depends greatly on the confidence that they have in their examiners. What kind of appeal process does not utilize an unbiased third party to ensure a balanced and fair consideration? The process as proposed will severely weaken the integrity of the examination and NCUA.

There are other issues with the proposed rule that completely baffle the mind, such as why a credit union's allowance for loan loss would be limited to 1.25% in the risk based capital calculation. However, I will not belabor the point. It is obvious that this is a bad rule and must be eliminated or at the very least significantly changed. Credit union executives must be allowed to do what they are paid to do "manage". I assume that your intention by the proposed rule was to control risk. However, by not allowing managers to utilize the professional tools & expertise available to manage risk for their individual credit union, you are not smartly managing risk, but instead limiting growth opportunities and interfering in a perfectly sound business model.

Please take my concerns into consideration and make a decision to either eliminate the rule or make major changes to the areas discussed.

Sincerely,

Arthur J. Kremer  
President  
Sharefax Credit Union