Diamond Lakes Federal Credit Union

MAY15'14 AM10:40 BOARD

Mr. Gerald Poliquin

Secretary to the NCUA Board

1775 Duke Street

Alexandria, VA 22314

5/9/2014

Dear Mr. Poliquin:

Thank you for the opportunity to address my concerns on NCUA's proposed Risk Based Capital Rule on behalf of Diamond Lakes FCU.

Our credit union recognizes the need for a well-balanced and specific credit union set of standards as an alternative to the current net worth standard established by Congress in 1998 setting 7% as well capitalized for any and all credit unions regardless of their risk profiles. However, the proposed rule could result in a less workable capital standard putting the credit unions at a disadvantage to our competitors. We would like to respectfully address the following concerns in specific areas.

Basing the capital requirement on balance sheet risk not "one size fits all" would be more equitable. The banks have been bailed out 3 times in our history and credit unions have never been bailed out. Credit unions by law, regulation and structure, maintain relatively lower risk balance sheets and should be recognized as such in capital retention requirements.

Credit unions posing greater risk to the share insurance fund should maintain more capital buffer, and when they do, all credit union benefit through NCUSIF protection.

The proposed rule does not replace, but supplements, the current statutory minimum net worth standards of 7% to be well capitalized. Deducting our share insurance fund from the ratio and not allowing 1% to count as an asset or capital makes the ratio more bank-like. We are not banks and do not carry the same risk a bank does. The proposed rule in effect, takes away 350 basis points of our cushion.

The proposed risk weights are very subjective and not objective. Allowing an examiner to base an opinion about their analysis of additional risk is purely subjective.

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Performing consumer loans with collateral should have lower risk weight than unsecured consumer loans. Risk weighting for mortgage loans is concentration based and does not factor in LTV, credit rating or performance.

Penalizing for a CUSO investment is excessive and will undermine collaborative investment. As cooperatives this should be encouraged and rewarded and that is not the effect of this proposal.

Examiner discretion is a major flaw, creating a subjective goal line that can change and will be impossible to manage by the credit union.

Additional, no waivers or rewards are given for credit unions who are well capitalized under both net worth and risk based capital system. Fixed asset waivers, longer time between exams are examples of choices that could be provided to those meeting both capital goals. There should be a balance of rewards for meeting expectations.

Eighteen months implementation time is far too short and should be doubled to allow time for credit unions to build capital.

Improvements to the rule could include:

1. Risk weight of CUSO at 100% not the proposed 250% to promote collaboration and risk sharing.
2. Paid-in Capital at corporate credit unions should be weighted at 150%, recognizing some risk but not 200%. The proposal will discourage corporate capital building.
3. Remove subjective examiner discretion as it is too subjective to opinion or arbitrary determinations and inconsistency of application. Plus, credit unions need to know what their capital requirements are to manage to a specific number.
4. Set an appropriate 9% capital ratio for both PCA and Risk Based Capital and place waivers for meeting the high standard.
5. Delay the effective date to December 31, 2017 to comply thereby giving time for credit unions to prepare and adjust their balance sheets effectively and with strategic planning not rushed and well thought out.

Thank you for allowing me to comment on this vital piece of regulation and the negative effect it will have on Diamond Lakes FCU. We strive to be a strong viable cooperative choice for our members.

Please consider the suggested improvements to the Risk Based Capital Rule. The strength, safety, soundness and long term viability of the credit union industry will be impacted by the capital structure under which we operate in the years and decades to come.

Respectfully,

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President/CEO