LONE STAR CREDIT UNION

May 7, 2014

MAY16'14 PM 2:22 BOARD

Mr. Gerard Poliquin
Secretary to the NCUA Board
1775 Duke Street
Alexandria, VA 22314

Re: Comment letter on Proposed Risk Based Capital Rules

Dear Mr. Poliquin,

On behalf of Lone Star Credit Union, I would like to offer the following comment letter on the recent NCUA proposed Risk Based Capital Rule. While our credit union recognizes the need for a well balanced and credit union specific set of capital standards as an alternative to the current net worth standard established by Congress in 1998 that specifies 7.00% net worth as the standard to be well-capitalized of all credit unions regardless of their individual risk profiles, we have serious concerns about the proposed Risk Based Capital rule, as it is currently proposed, we feel it must be addressed, or the results could be a less workable capital standard putting the credit union at a competitive disadvantage. We would like to respectfully address the following concerns and offer possible improvements to the regulation in these specific areas.

While we are currently mandated by law to maintain a 7.00% net worth, we will now have a second mandate to maintain a 10.5% risk based net worth. Since the Basel III Accord stated that we should strive to gain "comparability" in the capital standards of financial institutions, however, NCUA's current requirements are more punitive and restrictive to credit unions than community banks. Since it would be possible to exceed the current required 7.00% net worth ratio, and fail the risk based capital net worth requirement, which capital ratio would become the primary and what PCA action will be taken?

There is no credit given to the performance of mortgages or member business loans in loan yield in the balance sheet. The only consideration is the maturity of the loan with a heavy risk weight and with very little consideration given to the loan-to-value ratios or credit rating. What would happen to credit unions that are historically chartered for business lending, i.e. taxi medallion loans etc, or credit unions whose primary loans are to provide constructions loans for churches and who have historically performed well? There does not appear to be any special consideration for these credit unions in this "one-size-fits-all proposed regulations."

Credit risk (both positive and negative), along with liquidity and performance of assets are not effectively incorporated in the proposal. Therefore, how did NCUA establish the 10.5% risk based capital as the standard since it is not mandated by law? I believe a 9.0 to 9.5% risk based ratio would be sufficient to be considered a well capitalized credit union. This would allow for a 200 to 250 basis point cushion above the 7.0% net worth ratio to be considered well capitalized.

We are in complete disagreement with allowing field examiners discretionary authority to alter and raise the standard risk based capital requirements should they think it is needed, as this could become arbitrarily subjective and force a credit union to alter strategic plans that are working, or discontinue a service to the members that has been successful. They could create standards and/or goals that could be difficult, at best, to manage to.

For any credit union to significantly influence their balance sheet to perform within the risk based capital standards within 18 months could be extremely difficult. At a minimum, I suggest a favorable change the balance sheet performance would require 36 months. Since credit union capital can only be raised by increasing the net income, or decreasing the assets, which may not be very desirable, I would ask the NCUA Board to seriously consider, at a minimum, 36 month turn-around time for a credit union to change its balance sheet performance, allowing the examiner sufficient time to review healthy trends.

In his letter of May 7, 2014, addressed to the Secretary of the Board of NCUA, Senator Alfonse D'Amato strongly urged the Board to consider Congress's intent in 1998 in passing the credit union Prompt Corrective Action thresholds of adequately capitalized and well capitalized definitions. The current NCUA proposal for Risk Based Capital does not appear to be very consistent with Congress's intent as the Senator has so succinctly stated in his letter.

In closing, we appreciate your willingness to allow Lone Star Credit Union to comment on this important regulatory proposal. We respectfully and strongly encourage you to consider possible improvements to the Risk Based Capital Rule. The strength, safety, soundness and long term viability of the credit union movement will be impacted by the capital structure under which we operate in the future. It is crucial that any changes to the credit union capital system be appropriate to the risk and balance with the ability to effectively manage that risk.

Again, thank you for your time.

Sincerely,

Jerry Clancy
President/CEO
800-LUV-MYCU x-8101
7508 Ferguson Rd
Dallas, TX 75228