AURORA SCHOOLS
Federal Credit Union
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May 19, 2014

Mr. Gerard Poliquin
Secretary to the Board
National Credit Union Administration
1775 Duke Street
Alexandra, VA 23314-3428

Re: Risk Based Capital Proposal

Dear Mr. Poliquin:

The Aurora Schools Federal Credit Union (ASFCU) appreciates the opportunity to comment on the National Credit Union Administration's proposed rule reforming capital standards. While we support requirements for credit unions to be financially strong, we feel this proposal could have detrimental negative effects on our ability to grow, and put the credit union charter at a competitive disadvantage to our competitors. We recognizes the need for a well balance 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% net worth as the standard to be "well capitalized" of all credit unions regardless of their individual risk profiles. We would like to respectfully address the following concerns and offer possible improvements to the regulation in these specific areas:

1) Why do we need this to change, especially given the fact the credit union movement has come through the worst economic time in our history and most credit unions are now returning to profitability.
2) The proposed risk weights will require credit unions to significantly restrict, or eliminate entirely, first mortgage lending, forcing members to seek mortgages from higher-priced competitors. This flies in the face of the cooperative structure and spirit and, ultimately, puts credit unions at a significant competitive disadvantage with their for-profit counterparts.
3) Many credit unions are profitable again as a result of ALLL adjustments. We're facing extraordinary regulatory demands that will impact profitability – the CFPB's overreach, new GAAP rules under consideration that could require significant adjustments to ALLL accounts, .
4) Does NCUA have the authority to enact this regulation? According the Prompt Corrective Action (PCA) in 1998, NCUA is exceeding it authority under the Federal Credit Union Act (12U.S.C. 1790d(d)(2)).

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5) NCUA states the proposed rule would establish a risk-based capital ratio method more commonly applied to depository institutions and would improve the comparison of assets and risk-adjusted capital levels across financial institutions. However, because neither the FDIC Rule, nor the Basel III standards, attempt to incorporate risks other than credit risk into the evaluation of capital needs, the proposed rule does not accomplish this stated objective.
6) The proposed rule requires the total value of a credit union's investment in a CUSO receive a risk-weighting of 250% and the total outstanding principal amount of a credit union's loans to a CUSO receive a risk-weighting of 100%. As with other categories of risk-weights, these appear to be arbitrarily assigned, do not account for the financial strength of the particular CUSO and the Agency does not offer a rational basis for the vast difference in risk-weights between loans and investments.
7) The NCUSIF Capitalization Deposit represent credit union funds which are an asset to the credit union and its members. These funds would be reclaimed by the institution in the event of a voluntary liquidation or conversion away from a credit union charter. This asset is a reserve that serves to protect the NCUSIF from potential losses and is not subject to claims of creditors. It serves no other purpose but to protect the fund in the same fashion as the institution's net worth and should be treated as such by including it in the calculation.

ASFCU agrees with the NCUA that capital reforms are necessary and appropriate, and we appreciate NCUA's efforts in this endeavor. However, for the reasons state above, ASFCU feels strongly that the current proposal puts credit unions at a significant competitive disadvantage with banks, does not accomplish its stated purpose, does not comply with the statutory requirements of the Federal Credit Union Act for comparability with FDIC rules implementing Basel III, and will ultimately harm credit unions members. ASFCU respectfully request that NCUA abandon the proposed rule in its entirety, and recommend seeking credit unions' input through the process of advanced notice of proposed rulemaking.

Regards,

Brad Johnson

Brad Johnson
President & CEO