KOHLER CREDIT UNION

May 22, 2014

By electronic delivery to:
http://www.regulations.gov

Gerald Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: RIN 3133-AD77
PCA-Risk-Based Capital

Dear Mr. Poliquin:

Kohler Credit Union appreciates the opportunity to submit comments to the National Credit Union Administration on the proposed Prompt Corrective Action and Risk Based Capital proposed rule.

Kohler Credit Union is a $283 million asset, community chartered credit union, headquartered in Kohler, Wisconsin. Kohler Credit Union maintains six (6) full service branches and three (3) in-school branches serving approximately 36,600 members in Sheboygan, Calumet, Manitowoc, Ozaukee, Washington and Fond du Lac Counties of Wisconsin.

We do not agree the current method utilized to determine the risk based net worth (RBNW) ratio needs to be modified. The proposal as set forth goes too far in its conservativeness and beyond that of which community banks are subject to under Basel. We believe this would have many unintended consequences for credit unions and give them a competitive disadvantage in the marketplace. We also feel that NCUA has not justified the need for the rule adequately and assumes unwarranted additional authorities under this proposal.

Capital and risk go hand in hand, and credit union senior management, boards, and regulators are all accountable for ensuring that appropriate capital levels are in place based on the credit union's risk exposure. The proposal lacks recognition of efforts to mitigate and manage risk exposures.

Federal Credit Union Act
The capital requirements should be as the Federal Credit Union Act requires – an adequately-capitalized credit union to be 6% or more. This rule is attempting to override the statutes. Requiring credit unions to potentially have to increase their capital under this proposal would need to be offset by additional abilities to raise supplemental capital, which is not available to credit unions today, and increasing net worth to the standards set forth in the restoration proposals through income during an economic decline can be very difficult. A well-capitalized RBNWR for a complex credit union would be best capped at 9% instead of the proposed 10.5% or above, with the remaining capital categories adjusted accordingly.

Risk Weightings and Basel III Comparisons
You state in the proposal that the requirements would be "more consistent with . . . the regulatory risk-based capital measures used by the . . . (Other Federal Banking Regulatory Agencies)". The proposal puts different levels of risk weighting on identified areas, up to 1,250 percent! In Basel, however, there are only two risk weightings higher than 100% - mortgage servicing rights and delinquent consumer and student loans, indicating that the NCUA proposal goes above and beyond the "consistent" approach that is stated. The risk weightings must be properly calibrated. Does the risk weighting proposed actually match the real risk in the system? The

proposal seeks to address credit risk, interest rate risk, and concentration risk – very different from the Basel capital requirements. The proposal as written works against its own purpose.

While we do not disagree that there are risks in lending, this is what we do! We mitigate those risks through solid underwriting practices.

Real Estate Loans
We agree that the recent economic struggles had real estate values decline sharply, and that some players in the market made loans that were not properly underwritten. However, credit unions were not the bad guys here and with the implementation of all the new mortgage regulations, this should be further negated. Also, the proposal does not differentiate between mortgages at 50% loan to value or 120% loan to value – very different risks. In addition, the proposal attempts to insert a concentration risk guideline, which Basel does not do.

The proposal wants first and junior liens held by the credit union, with no intervening liens treated differently. This would be extremely cumbersome for our credit union to track with our current systems.

Consumer Loans
Kohler Credit Union has a heavy "A" credit portfolio and lesser credits are underwritten accordingly. Also, unsecured, delinquent, and secured loans are all risk weighted the same, though they carry very different risks and are managed differently.

MBLs
Again, the proposal attempts to insert concentration risk management here. What makes the first dollar of MBLs over the 15% of assets more risky than the first dollar of MBLs in total? Basel risk weights all equally at 100%. No collateral is taken into account – secured and unsecured are treated the same. In addition, the proposed rule would "moderately increase all of the risk-weights for MBLs" – the NCUA considers an additional 25% moderate?

ALLL
FASB currently has proposals on the table that could potentially have a negative impact for risk based capital purposes in complying with GAAP. In addition, risk weighting the ALLL and then risk weighting again delinquent, foreclosed and repossessed loans could double count in some areas of the risk weight proposals.

Off-Balance Sheet Activities
You propose to penalize credit unions for having unfunded commitments on non-business loans and business loans. How will the NCUA view courtesy pay programs, as we must adjust these to the loan section of the Call Report today. Will these be considered an "unfunded" commitment if a member is not using the program?

NCUSIF Share Insurance Capitalization Deposit
The proposal has this subtracted from net worth in the calculation. Doesn't this send the message that we shouldn't expect that money back at any point since it is not available to cover any of our risks or losses? This should be looked at as an investment.

Investments
Again, the proposal is looking to infuse interest rate risk by just looking at term, and not the complete credit union picture. The credit union must manage interest rate across the ENTIRE balance sheet (see additional notes regarding liabilities below).

CUSO Investments
CUSOs play an important function in the ability to offer services to our members, and with the proper due diligence of management, a CUSO investment is not any riskier than any of our other balance sheet items and

should not be risk weighted over 100%. This, especially, in light of the CUSO rule that goes into effect on June 30, 2014.

Paid in Capital
The proposal is risk weighting the paid in capital to corporate credit unions at double the value – why? As a member of Corporate Central Credit Union, a well- managed corporate, not involved in the recent debacle, we feel this is not an equitable risk weighting. This is especially true in light of the recent regulatory capital requirements imposed on corporate credit unions.

Asset-Backed Investments
While Kohler Credit Union does not participate in these investments, we are concerned as this could be a matter of examiner opinion again, and should be no more than 200%.

Liabilities
The liability side of the balance sheet is entirely ignored in the proposal.

Individual Minimum Capital Requirements
This is absolutely not acceptable that examiners would be able to impose higher capital requirements on credit unions on a case by case basis. No rule should afford any greater authority for an individual examiner to impose additional capital requirements on a case-by-case basis. Examiners are human beings as well and as such have opinions about how things should be done in a credit union. This also means that the subjective nature of requiring a credit union to have more RBNW based on the items listed in the proposal would be too much of an opinion area, allowing even a disagreement about how management is running the credit union to result in a requirement of a higher RBNW. It is essential that credit unions understand clearly what their capital and net worth expectations will be.

The proposal states that a credit union would be given reasonable prior notice of an individual minimum capital requirement – what does the NCUA see as reasonable – two weeks, two months, something else?

Prompt Corrective Action
The NWRP specifies a quarterly timetable of steps to increase net worth and risked-based capital ratios, without taking into account seasonality of deposits (i.e. tax return time) or economic factors that may play a big part in reaching these goals – very much out of the control of management, and to put into place required timelines hard and fast, plus gains of 1/10% of assets, may not be realistic in the real world.

When Kohler Credit Union developed an internal net worth restoration plan, to get to the "cushion" we wished to operate under, those factors played a big part in the timeframe it took us to reach our goal.

Implementation Timeframe
NCUA proposes an 18 month timeframe for credit unions to comply with the regulation once finalized. Community banks were given 5 years under Basel. This, again, needs to be equitable, if changes are made to the requirements. Credit unions potentially will need to redistribute their balance sheets and strategic direction.

Potential Unintended Consequences
For credit unions such as Kohler Credit Union, even though we would be fine in the current timeframe, this could impact long-term growth strategies with products, services, and potential mergers. We would be managing more to the numbers than the needs of our members. Built in cushions for growth could potentially go away. The majorities of credit unions have tremendous financial strength and have a powerful innovative and cooperative spirit that will make them a catalyst for improving members' financial lives for years to come.

The proposal in no way gives leeway to credit unions or the NCUA in the event we go through another crisis that requires natural person credit unions to pay out huge assessments, out of the control of their Board and management.

Other Concerns

Finally, goodwill should not be excluded from the calculation of the numerator and the NCUA should not be able to restrict dividend payments as the proposal provides.

In Summary

The FDIC reported 8.8 times higher losses than credit unions from 2008-2013. Yet we are being asked, if the proposal were effective today, to hold more than 200 basis points more than banks. Equitable and competitive – again no!

NCUA recently published that credit union failures cost $66.8 Million in 2013. In reviewing the Material Loss Reports available to the public on the NCUA website, the majority of failures and losses seem to occur in the smaller credit unions – those that would be excluded from this proposal entirely! The risk based capital proposal needs to focus on credit risk with the add-on component for interest rate risk and concentration risk using other tools. The proposal as it stands is overkill and would negatively impact the current net worth cushion most credit unions currently operate under by choice.

Kohler Credit Union does a tremendous amount of good in our communities and we need fair and reasonable regulation. We need to get back to the business of serving our members and not working on implementing new and cumbersome regulations.

We appreciate the opportunity to share our thoughts on the proposal. Again, I would urge the NCUA further consider all comments received and revise the proposal. If you have questions or need further information, please feel free to contact me by telephone 920-459-2595 or by email at jehmann@kohlercu.com or svandermeuse@kohlercu.com.

Sincerely,

John Ehmann

John Ehmann
Senior Vice President/CFO

Sue Vandermeuse

Sue Vandermeuse, CUCE, CUERME
VP Internal Audit & Risk Management