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MAY20'14 PM 1:12 BOARD

May 16, 2014

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

Dear Mr. Poliquin:
I would like to comment on the National Credit Union Administration (NCUA) proposed risk based capital rule. I appreciate the opportunity to provide my feedback on this very far reaching regulatory proposal, to express my concerns about the negative impact this proposal that as is, would affect the long term viability of the credit union industry. Although there are many aspects to this rule, I would like to specifically address those that pose the most concern to my credit union.

Proposed rule 702.105 (c) is abstract in that no rule should grant additional individual examiner authority to impose additional capital requirements on a case-by-case basis. Credit unions need to have an absolute clear understanding of what their capital and net-worth requirements should be. There will be no way to have consistency of application with such authority. Additionally, it would significantly diminish the responsibility of boards and management to make critical financial judgments, determine strategic direction of the credit union, and oversee policy. This recommendation should be removed entirely.

A number of risk weights, especially for CUSO's, mortgage concentrations, mortgage servicing rights and some investments lack any substance or reasoning:

- There is no risk weighing for different types of CUSO's (lending, operational, profit centered, savings centered). CUSO's are weighted too high as many are very profitable or save credit unions a lot of money. The 250% seems arbitrary. Additionally, the weight is on the current value, penalizing growth in investment value.

- The two accounting methods for mortgage servicing rights (fair value and amortization) are weighted equally (and high) but amortization is much more conservative. These ratings should be lower and different.

- Performing consumer loans with collateral (autos, etc.) should have lower risk weights than unsecured consumer loans.

- The different weight limits for mortgage backed investments or government guaranteed investments are not weighted properly because of the protection (implied or actual) recognized by the federal government.

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- Mortgages are weighted too high for the historical risk that has been realized by the credit union industry. They are not weighted equally when compared to mortgage backed investments. Additionally, risk weighting for mortgage loans are totally concentration based with no mitigating factor for LTV, credit rating or performance.

- The time frame expected to implement this regulation is too short. It will take at least 3 years for credit unions to reposition their balance sheets to accommodate this regulation.

Since credit unions remained strong through the worst financial crisis in 80 years, this proposed regulation has overreached in protecting an industry that has historically proved to be able to protect itself. This additional strain on an industry already burdened by overregulation will require unrealistic levels of capital that would otherwise be used to serve our members. It would create a competitive disadvantage to our competitors and would push members to other financial institutions that probably have less capital. I respectfully and strongly encourage improvements to the Risk Based Capital Rule and address concerns expressed in this letter. It is crucial that any changes to the credit union capital system be appropriate to the risk and balanced with the ability to effectively manage that risk.

Sincerely,

Jana Heaton
CFO