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Mr. Gerard Poliquin, Secretary of the Board
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: Comment on the Proposed Corrective Action – Risk Based Capital Regulation

15 May 2014

Dear Mr. Poliquin,

Thank you for the opportunity to respond to the proposed risk based capital regulation. Aventa Credit Union (Aventa) is a Colorado state-chartered, federally insured $150+ million credit union.

The proposed risk based capital regulation creates confusion, the potential for surprise, and seemingly arbitrary risk weights lacking a rational basis for all credit unions. Most rules promulgated by NCUA and other regulatory bodies emphasize that rules and regulations should provide a framework, generally, and that the application is dependent upon each financial institution's individual framework and risk profile. No two financial institutions are identical and a one-size fits all approach is dangerous and bound to wreak havoc on an already volatile financial environment. Each credit union has a unique risk profile and strategy and regulations should recognize this fact.

Prudent risk management is too complex to be reduced to seemingly arbitrary risk weighting. Risk and liability management is an ongoing subjective practice that good financial institutions are constantly and consistently analyzing. The rule does not address liability management, therefore, it will not ensure that a credit union has the appropriate level of capital that is commensurate with their level of risk. The rule, as proposed, will penalize credit unions like Aventa that are proactive in analyzing liabilities in order to help mitigate interest rate risk and liquidity risk. Liability strategy and management does play a key role in the level of risk of a financial institution. Interest rate and liquidity risk are greatly influenced by the liabilities of a credit union. If you do not include the liability structure, the proposed regulation implies that the cost of funds is not a component in managing interest rate risk. In reality, at Aventa, there are legitimate concerns about deposits leaving the credit union and those concerns are proactively monitored in order to properly manage liquidity risk. Deposit risk and risk mitigation capabilities cannot be identified, where under the proposed rule, it is suggested that a financial institution only look at the label or type of deposit. Risk management is anything but arbitrary and involves significant modeling and analytics, much more in depth than the rule suggests.

In regard to the proposed rule's guidance on risk-weightings as they relate to interest rate risk is the zero risk-weighting on Treasuries. While the rule considers Treasuries to be without risk, Aventa disagrees. While a government guarantee mitigates risk, it does not alleviate, entirely, all risk. Aventa has concerns about interest rates increasing rapidly or rates changing significantly which would not be without effect on Treasuries. Aventa does modeling and shock

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scenarios often for mitigation of interest rate risk. In a 300bp environment, a ten year Treasury decline could have a significant effect therefore NCUA cannot mean to define a Treasury as no risk. Many Mortgage Back Securities (MBSs) have less interest rate risk in a rising rate environment than a long-term Treasury. This adds even more confusion to the zero risk weight that the regulation identifies for Treasuries. Rates are not going to go down – there is almost nowhere to go – chances are, they are going to go up.

Another issue Aventa has with what the regulation fails to take into account is risk weightings based upon current weighted average life. This is a problem due to risk that can be caused by extension in these investments. Extension risk in MBSs (including collateralized mortgage obligations) is a reality that Aventa deals with and cannot be ignored. It does not take an extreme increase in interest rates to effect extension risk. Extension risk can have a considerable impact on risk based capital ratios. Should the proposed regulation go into effect, as written, it can over or understate risks associated with various above mentioned investments, which will directly impact a credit union's strategy and potentially its relevance to its members.

Risk-weightings without objective standards in the proposed regulation also include the 1,250 percent risk weight. This risk-weight can be applied to an "asset-backed investment". There is no definition of an "asset-backed investment" in the proposed regulation. While there is a generally accepted industry meaning, the regulation allows an examiner to exercise authority to require such a classification. This can create perilous circumstances for credit unions where examiners are not subject matter experts in this area. The lack of an objective standard that would allow an examiner to exercise authority to apply this type of risk-weighting combined with the lack of an objective standard to measure a credit union's comprehensive understanding could generate an inaccurate risk-based capital ratio.

It is incorrect to assume that for all credit unions that interest rate risk, credit risk, and liquidity risk should have the same risk –weighting. All credit unions have different investment profiles, offer different products, and management teams have different appetites for risk. A different type of asset has a different type of liquidity, credit, and interest rate risk. The regulation, as proposed, does not consider this. Risk levels are not arbitrary and cannot be chosen and applied across the board to all credit unions. The regulation, as proposed has not given enough clarity on specific risks the risk-weightings, for each asset class, are intended to address. Credit unions fared differently (amongst one another) in the most recent financial crisis, which exemplifies the fact that internal processes and controls, local markets, business cycles, and interest rates charged to make a difference on a credit union's risk and viability.

The regulation, as proposed, does not give enough data to support the arbitrary risk-weightings. The rationale that the regulation uses is industry averages combined with banking regulations. Credit unions, as a whole, fared better than banks in the last financial crisis. The proposed regulation does not take this into account, and instead, proscribes more restrictive capital requirements for credit unions than other depository institutions. Credit unions have limited means of capital growth and must rely on net income, which, if required to follow the proposed regulation, will negatively impact members. Aventa recommends that the regulation, as it stands should remain in place, and the proposed regulation should be abandoned entirely. NCUA could consider altering the current regulation to address areas that NCUA thinks may be lacking. The current regulation allows credit unions to run based on an individual risk strategy

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and profile, does not contain arbitrary risk weights, and allows material risk to be identified timely.

Thank you for the opportunity to respond to the proposed regulation and thank you for taking the time to read and take into account Aventa's issues with the proposal, as written.

Kind Regards,

Gregory J. Mills, CEO & President

Sarah Henderson, CFO & SVP Accounting

Jennifer M. Williams, General Counsel