May 27, 2014

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 55314-3428

Sent electronically to: regcomments@ncua.gov
RE: RIN 3133-AD77

Dear Mr. Poliquin,

We appreciate the opportunity to comment on the National Credit Union Administration (NCUA) proposal concerning risk-based capital requirements for federally insured credit unions. Kansas Corporate Credit Union (KCCU) is a state-chartered corporate credit union chartered in 1951. KCCU currently serves approximately 180 natural person credit unions and 20 credit union organizations located primarily in Kansas, Montana and Nebraska. KCCU members are required to make a Perpetual Contributed Capital (PCC) investment and most did so primarily because they feel corporate credit unions play a vital role in the daily settlement of member transactions and they want to continue to receive financial services in a cooperative fashion, without relying on a competing financial institution, subjected to their pricing philosophy. We wish to comment specifically on the risk-weighting of corporate credit union PCC and provide our general comments regarding the impact of the proposal to KCCU members.

We believe the risk weight of 200% associated with a PCC investment in corporate credit unions is too high for reasons we will address below…

- We believe the PCC risk weighting is too high when compared to the risk-based capital guidelines for the banking industry, and for corporate credit unions as detailed in Regulation 704, in which investments in Federal Home Loan Bank stock is risk-weighted at 20% (10 times lower than corporate credit union PCC) despite being an at-risk capital investment. This higher risk-weight carries with it the implication that the recently revised corporate credit union regulations were enacted in vain and serve no benefit from a risk standpoint. Whereas, we know corporate credit unions are highly regulated and operate in a safe manner as demonstrated by the successful transition surviving corporate credit unions have made to the new regulations. There appears to be no precedent or justification for the higher risk weighting of 200%.
- The higher risk-weight will most likely negatively impact the ability for KCCU and other corporate credit unions to grow and add future members. We believe there exists the potential for many credit unions that initially abstained from recapitalizing a corporate credit union and looked to other providers, to reconsider that decision and choose to rejoin a corporate credit union in the future and the higher risk-weight will make that decision more difficult.
- Additionally, we believe our members and other credit unions who support the corporate credit union system are being penalized twice over for their PCC investment…on the front-end, due to the higher risk-weighting of the investment and then on the back-end, when beginning in October 2016, a portion of that investment will no longer be included in the calculation of the corporate Leverage Ratio.

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Therefore, KCCU and other corporate credit unions are unable to fully maximize the value of the investment.

We urge reconsideration of the risk-weight associated with a corporate credit union PCC investment to a lower, more fitting, level.

In general, we believe the proposed risk-weightings assigned to most of the loan and investment categories are inordinately high and vary substantially from the Basel III rules imposed upon community banks, with whom most of our members directly compete with in their markets. The risk weights do not take into account the strength of each individual credit union's policies and level of expertise in evaluating the risk of each unique loan or investment product.

We also believe the risk-weighting for CUSO investments at 250% is too high. Our concern is that this high risk-weight will stifle and discourage future innovation in the credit union industry. The structure of the CUSO should be taken into consideration as those formed as Limited Liability Companies limit the loss exposure to the amount of capital invested.

The proposal, as drafted, appears short-sided, as it only applies to half the balance sheet and completely ignores funding strategies. Liability strategies implemented by credit unions are a key component to managing the interest rate risk and liquidity risk of any financial institution. Focusing on assets alone to determine the appropriate level of capital without regard to the liability structure is poor design and it penalizes credit unions that actively manage their liability structure to mitigate risks.

The inclusion of the Individual Minimum Capital Requirements (IMCR) provides the opportunity for overreach in examiner authority. If the risk-weightings are as rigorous as proposed, there should be no need for subjective examiner interpretation. It seems extremely unlikely the regulation would be implemented with any consistency across all credit unions. This clause in the proposal is very broad, quite subjective, and entirely unnecessary from our perspective.

If the proposal should move forward and become final as is, we strongly encourage NCUA to extend the effective date. Credit unions will have a very short window, only 18 months, to comply with the new regulation, not allowing adequate time for the many that will need to make significant changes to the manner in which they conduct business and the services they currently provide to members. The impact of the proposal to many current credit union business models is such that 18 months isn't nearly enough time for credit unions to hold strategic planning sessions necessary to discuss the impact to their individual credit unions; evaluate any changes they will have to make to their business model; and then implement those changes in order to comply with the final rule.

It seems ironic that as NCUA is proposing risk-based capital regulations, the banking regulators appear to be abandoning risk based capital and returning to a simple Leverage Ratio, similar to current credit union industry standards with the minimum net worth requirement. On April 8, 2014, the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency adopted a final rule to strengthen the Leverage Ratio standard for the largest U.S. banking organizations. Perhaps they're recognizing that despite the risk-based capital requirements previously in place, they didn't prevent the financial crisis that occurred in 2007 and 2008 and they don't eliminate all risks that a financial institution assumes.

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Unfortunately, if the proposed risk-based capital requirements become final, we'll find more and more credit unions managing to meet regulatory requirements instead of managing to meet member needs and further eroding the value of our cooperative structure.

We thank you for the opportunity to comment on the proposed rule and we urge the NCUA Board to consider our comments as revisions are made to the final rule.

Sincerely,

Board and Management
Kansas Corporate Credit Union

William Hauber, KCCU Chair
President/Frontier Community Credit Union

LaRae Kraemer, KCCU Secretary/Treasurer
President/K-State Federal Credit Union

Tom Kjar, KCCU Director
President/Creighton Federal Credit Union

Mark Kolarik, KCCU Director
President/Kansas Teachers Community CU

Kevin Mayer, KCCU Director
President/Richland Federal Credit Union

Bob Thurman, KCCU Director`
President/Credit Union of America

Glen Scott, KCCU Director
President/Envista Credit Union

Greg Winkler, KCCU Director
President/Educational Credit Union

Larry Eisenhauer, President/CEO
Kansas Corporate Credit Union

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