One State Of Mind

May 23, 2014

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

Re: Comments on Proposed Rule
12 CFR Parts 700, 701, 702, et.al
Prompt Corrective Action - Risk-Based Capital

Via facsimile: (703)518-6319
Via email: regcomments@ncua.gov

Dear Mr. Poliquin:

On behalf of Arizona State Credit Union, a 130,000 member cooperative serving the state of Arizona since 1951, I would like to commend the National Credit Union Administration (NCUA) Board's efforts to determine comprehensive capital requirements for Federally Insured Credit Unions with respect to Risk Based Capital. I also appreciate the opportunity to comment on several areas of change proposed by the NCUA Board.

My comments are as follows:

1. **Strategic Impediment To Serving the Membership**
   Arizona State Credit Union agrees that sound capital accumulation and allocation are critical to credit union perpetuity. As such, the Board of Directors and Management are responsible for establishing capital allocation streams that satisfy current member needs, fund innovation to meet future member demands, and deliver long-term credit union success.

   However, the proposed regulation's risk-based lending weighting system would unfairly restrict the ability for AZSTCU to invest capital for those purposes. For instance, the risk weightings would significantly impact the credit union's ability to generate higher return on longer-term mortgage and business loans that subsidize our rural, lower-income members' product and service needs. Those rural areas account for forty-three percent of Arizona State Credit Union's branch delivery system and are represented by smaller agricultural and mining communities such as Cottonwood and Safford.

2. **Non-Comprehensive Risk Based Capital Approach**
We have concerns with capitalization standards that are silent in regard to conservative balance sheet management practices that reduce capital at risk. Specifically, the proposed regulation does not address the credit union's funding structure that may eliminate interest rate risk for longer-term loans or investments, mitigate the need for higher risk based requirements, and in fact, reduce required capital.

While monitoring trends and volume for longer-term assets is worthwhile, credit unions must be permitted to set their own limits high enough so that they are not forced to deny an otherwise valid allocation of capital when it is clearly in the best interests of both the member and the credit union.

3. **Subjective Capital Requirements**
We are also troubled by the proposed regulation's feature authorizing the ability to set individual minimum capital standards using subjective criteria that would override the proposal's objective measurements. Moreover, the proposal as drafted does not preclude individual examiner authority to impose additional capital on a case by case basis. The arbitrary and subjective judgment of the examiner could lead to inconsistent interpretation and application of this rule. Additionally, it could create uncertainty in the industry and potentially cause well-capitalized credit unions to miss growth opportunities by not engaging in mergers and creation of innovative products and services to meet the ever-changing needs of their members.

4. **Inconsistent Asset Risk Weighting**
Arizona State Credit Union has concerns with inconsistent risk weightings across different asset (investment and non-investment) categories. All treasury securities, and those guaranteed by NCUA and FDIC, carry a 0% risk weight, no matter the maturity. The new proposed rule assigns punitive risk weights to any investments with WAL greater than 5 years (150% for 5-10 year WAL and 200% for 10+ WAL). These risk weights certainly alter sound investment and ALCO practices, and reduce returns. Cash at the FRB is weighted at 20% when other regulators assign a 0 percent weight to Federal Reserve balances. Additionally, the new proposed risk weightings on real estate and MBL balances above set thresholds are significantly higher and inconsistent with other regulatory agencies. The risk weights applicable to other financial institutions generally do not increase with asset concentrations.

These increasing risk-weight tiers and other risk weighting inconsistencies could put credit unions at a competitive disadvantage and further limit their lending capacity and ability to serve their members.

5. **ALLL Limitation**
   We have concerns with the limitation of allowance for loan and lease losses (ALLL) at 1.25 percent of risk-weighted assets. While the new proposed rule appears more consistent with those of other regulatory agencies, the credit unions' historic low loss rates do not justify this specific limitation or restriction. Additionally, a new Financial Accounting Standards Board (FASB) proposed standard on ALLL will likely increase normal reserves, which will reduce the relative contribution of the 1.25 percent limitation. The adoption of the new Current Expected Credit Loss (CECL) model by FASB would clearly justify the increase of ALLL restriction or its potential elimination.

Given the intricacies and importance of eliminating strategic impediments, comprehensive capital management, and objective capital requirements, we respectfully request your timely consideration of our comments as the NCUA Board looks to implement new regulatory guidance.

Again, we greatly appreciate the opportunity to comment on this proposed regulation and for permitting us to share our views on risk-based capital requirements.

Sincerely,

David E. Doss

David E. Doss
President and Chief Executive Officer
Arizona State Credit Union

cc: Scott Earle