From:	Geald Guy
To:	_Regulatory Comments
Subject:	Prompt Corrective Action Risk-Based Capital Comment Letter
Date:	Tuesday, May 27, 2014 8:20:07 AM

Dear Secretary of the Board Poliquin,

I appreciate the opportunity to comment on NCUA's proposed rule to introduce a new set of risked based capital standards. I am writing on behalf of KEMBA Financial Credit Union, where I serve as the President and CEO. KEMBA Financial is located in Central Ohio and serves numerous communities and select employee groups. Presently we serve approximately 72,000 members and have assets approaching $900 million.

I respect NCUA's desire to implement a new set of risked based capital standards and agree with the concept, particularly if similar standards found in the Basel III calculation are utilized. Unfortunately, I believe the rule proposed by NCUA misses the mark, is overreaching, and will have numerous unintended consequences.

Although the NCUA has expressed a desire for consistency with equivalent bank requirements, which I would support, once you get beyond the superficial similarities regarding the ratios, the credit union requirements, as proposed, are much more restrictive and punitive than the standard Basel III framework. The NCUA proposal attempts to mitigate a much broader set of risk parameters and creates a directive control mechanism through its defined risk-weight assignments.

Unlike the Basel III framework, the NCUA's proposed methodology for credit unions goes far beyond core credit risk and attempts to control a broader set of risk parameters. Namely, interest rate risk, concentration risk, liquidity risk, operational risk, and market risk.

While the NCUA's rules already allow for control of these risks, at least to some extent, the new proposed rule substantially expands where and how these guidelines may be applied. In some cases, it appears the proposed measures have the potential to create irrational incentives to create credit risk, while attempting to reduce liquidity and/or market risk.

Again, I want to go on record that I support the notion of introducing a risk based capital rule and appropriate guidelines. I simply believe the proposed rule, in its current state, misses the mark. Several areas of the original rule that need reexamination and should be changed moving forward includes:

1) Failure to include the NCUSIF Capital Deposit
2) Failure to include Goodwill
3) Including residential mortgages that are unconditionally guaranteed by the FHA and VA
4) Eliminate the changing/doubling of the Basel III required ratio for Non-Delinquent First Mortgage loans. (Basel III is 50%, NCUA's proposal is 100%.)
5) Other Real Estate Loans in general have ratios that don't align with Basel III standards, with the NCUA's requirement being as much as 50% greater.
6) Member Business Loans have similar disparities between the Basel III standards and the NCUA's proposal. Eliminate this disparity.
7) A credit union's investment in a Corporate Credit Union's Perpetual Capital should not be punished.
8) Similarly, investments in and loans to CUSO's should also not be a negative or "at risk" event.
9) I am at a complete loss as to why the proposed rule "punishes" a credit union for making long term investments. Let ALM principles govern those decisions.
10) Similarly, I am at a loss to understand why an investment in a Gov't guaranteed instrument, regardless of duration, calls for excessive reserving, that is as much as 10 times what is found in Basel III guidelines.

Lastly, while our credit union is defined as well capitalized, both today and under the proposed rule, I still don't favor the proposed rule, as I cannot predict how our balance sheet could change in the future. I don't think it is wise to have a rule that could keep a credit union from taking prudent action, simply so that it can adhere to an arbitrary set of ratios.

As you move forward, I ask that you consider my thoughts and concerns, as well as those expressed by many others, and reshape your proposed rule. Staying much more in alignment with Basel III is a good starting point. Furthermore, staying focused on credit risk, as opposed to attempting to control numerous elements of risk in the same rule would, I believe, be a more sound approach.

Thank you for the opportunity to comment on this proposed rule and for considering our views. Past experience strongly suggests that NCUA officials listen, especially when sound arguments to make change to a current or proposed rule are presented. I look forward with great anticipation on how this proposed rule is modified moving forward.

Sincerely,

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