SouthPoint Federal Credit Union
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May 27, 2014

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

VIA ELECTRONIC DELIVERY: regcomments@ncua.gov

RE: Prompt Corrective Action - Risk-Based Capital; RIN 3133-AD77 Comment Letter

Dear Mr. Poliquin:

I am writing on behalf of SouthPoint Federal Credit Union, which serves 7 counties in rural Minnesota. We have 12,600 Members and $267 million in assets. SouthPoint appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action - Risk-Based Capital (RBC).

Using the NCUA calculator our RBC ratio of 19.16% is higher than our NW ratio of 14.49% because of our first mortgage loans and short term investments. So, while we are not currently affected by RBC, we are concerned about the future and the effect of the regulation on our fellow credit unions in Minnesota. We are greatly concerned about the MBL calculation.

With the recent updates to Reg Z and other regulatory changes, the traditionally competitive balloon mortgage loans we have offered to the small rural communities we serve are not as competitive as they have been in the past. It is likely we will not be able to grow that portfolio going forward. We have been writing MBLs for decades and have a waiver to exceed 12.25% cap. There is opportunity in our area to increase our agricultural and business loan portfolio. As the mix in our portfolio changes, RBC will impact our growth potential because of the difference in weighting between business loans and consumer mortgages loans. We have not had appreciable losses in our business loans and yet they are weighted 100% to 400% riskier than residential real estate loans. Currently we advance less that 50% of appraised value on farmland loans which are a significant portion of our portfolio. As we risk rate our business loans, wouldn't it make more sense to account for credit risk in the ALLL and adjust the equity calculation accordingly?

Other rural credit unions will undoubtedly be more adversely affect than us. I know some are looking into changing charter into a mutual savings bank if RBC goes into effect under the current proposal.

I certainly respect and appreciate the need for establishing capital requirements that reflect the risks associated with each institution. However, I feel the current model somewhat arbitrarily assigns risk unrelated to the underlying assets. In addition, the implementation period is insufficient to strategically adjust to the new landscape.

It should not be forgotten in all this mathematics that the reason for our existence is to serve the varying needs of our members. These risk weights seem to dictate what types of loans should be made regardless of the needs of the communities and members we serve.

Although similarities exist between the risk weights of the proposed rule and the Basel III requirements for banks, the RBC proposed requirements are much more restrictive. In comparing the categories and their risk weightings, credit unions under the proposed rule will generally fall under higher risk-weight requirements than those required for banks in the same asset categories.

If you have any questions about my comments, please do not hesitate to contact me at (507)794-8808.

Sincerely,

Richard L. Nesvold
CEO

cc: Senator Amy Klobuchar
Senator Al Franken
Representative Tim Walz
Minnesota Credit Union Network