From:	Eric Hardman
To:	_Regulatory Comments
Subject:	Prompt Corrective Action; Risk-Based Capital Comments
Date:	Wednesday, May 28, 2014 2:33:49 PM

I am writing on behalf of Electro Savings Credit Union, which serve individuals who live or work in St. Louis City and County, St. Charles, Franklin and Jefferson counties in Missouri, and Jersey, Madison, St. Clair and Monroe counties in Illinois St Louis, Missouri as well as parts of Illinois. . We have 19,000 members and $151,000,000 in assets. Electro Savings Credit Union appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action - Risk-Based Capital.

The current proposal would hurt our credit union and other credit unions. The proposal limits our future growth no matter the growth strategy we employ. If we focus our growth in the R/E sector, then our growth potential is limited by 71% compared to the current RBNW calculation. If we focus our growth on traditional consumer loan growth, our growth will be limited by 77% compared to the current RBNW. We feel that by following sound IRR, NEV Investment and Lending policies we have taken enough safeguards to protect our Capital and monitor our risk.

Looking at the Risk Based Capital as proposed, I feel there are some inconsistent and illogical weightings. Below are some examples:

- T-Bills and US Government obligations have a 0% risk weighting , but funds held at the Federal Reserve have a 20% weighting.
- A Member Business loan with a 7 year balloon maturity is weighted at 100%, while a 7-year bullet agency security with no credit risk is assigned a 150% weight.
- A current 2nd Deed Mortgage loan is weighted heavier than a non-delinquent credit card or other unsecured loans.
- Investments in general are weighted only by maturity.

Also, my understanding is the new RBC is to be similar to the Banking Industries BASEL 3. However the following discrepancies occur:

- Under Investments BASEL appears to be weighted more on the "risk" of the investments while the proposed RBC is on term. This creates a situation where banks with Private Label MBS are weighted at 50%, while ***any*** investments the credit union has with a maturity of 3 to 10 years is weighted at 75 to 150.
- Commercial loans under BASEL 3 are all 100% risk weighted. However under the RBC proposal MBL loans over 15% of assets are weighted from 150 to 200%

Another issue, is the general practice of securitizing mortgages to reduce credit risk. For instance, we swap a 1st mortgage loan to a GSE and get back a GSE guaranteed MBS backed by the same loan. This eliminates all credit risk. However, based upon the proposal, my capital would decrease has the risk weightings between loans and investments are different.

Another issue of concern is the rule does not focus on quality of underwriting standards and expertise on loans, but rather on arbitrarily weighted measurements.

Thank you for the opportunity to comment on this proposed rule and for considering our views on risk based capital requirements.

Eric Hardman
VP Finance
Electro Savings Credit Union
www.ElectroSavings.com