From:	David Merrell
To:	_Regulatory Comments
Subject:	Risk Based Capital rules comments
Date:	Wednesday, May 28, 2014 4:57:56 PM
Attachments:	image005.png

Mr. Gerald Poliquin
Secretary of the Board
National Credit Union Administration

Re: Comments on Proposed Risk-Based Capital (RBC) requirements

Dear Mr. Poliquin:

I am representing Wauna Federal Credit Union. It currently has $165 million in assets and had a net equity ratio of 8.74% at the end of 2013. We regard the new RBC rules to amount to a taking of the Wauna capital/net-equity, which places this credit union at a severe disadvantage to larger institutions and banks.

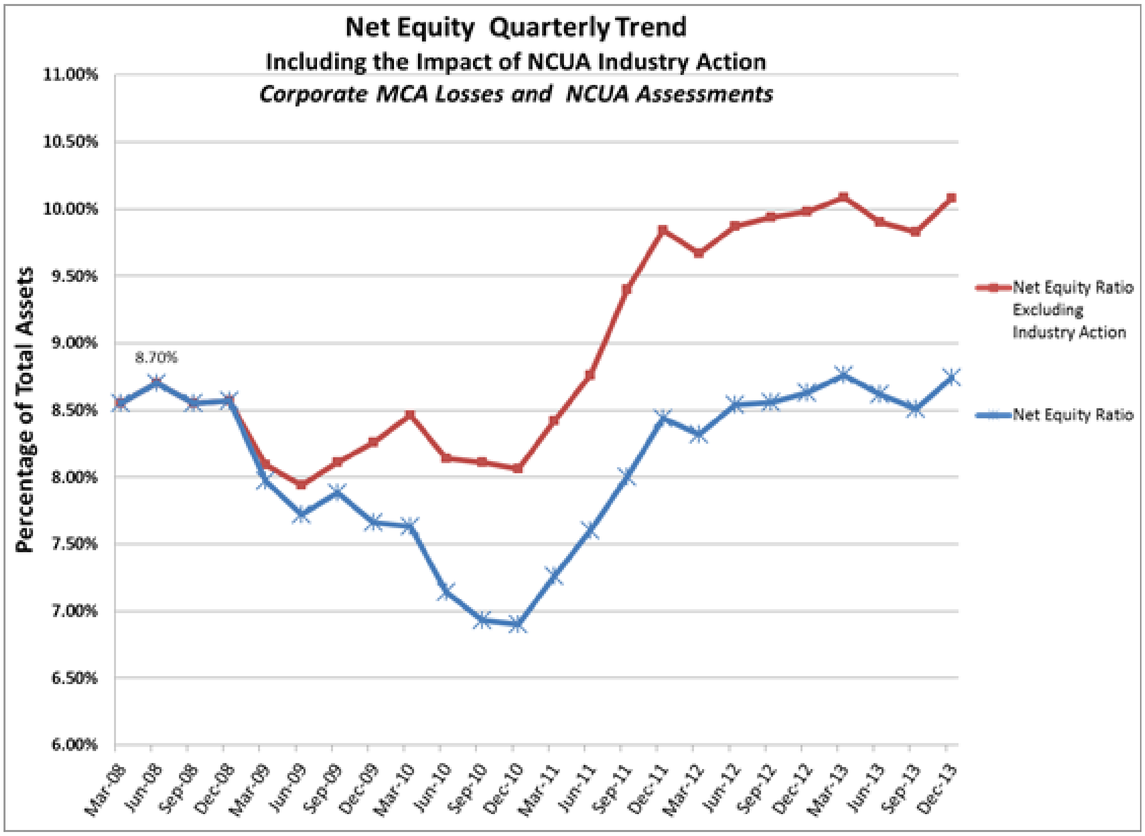
Our concerns are as follow:

1. When the corporate credit unions were placed in conservatorship it was not done until after we were forced by the merger contract of NW Corp and SW Corp to add over $600,000 to our paid-in capital to bring it up to the required minimum of $1 million. That and the annual payments made to the stabilization fund have reduced the Wauna Credit Union capital by **1.34%.**

   This had a disparate impact on smaller credit unions due to the minimum paid-in capital requirement.

2. As of December 2013 Wauna had a net equity/capital ratio of 8.73%, 1.73% above the well-capitalized minimum. Per the new NCUA calculation Wauna would have had a RBC of 10.51%, just 51 basis points above the well-capitalized minimum. It amounts to an effective taking of capital of another **1.22%.**

   Instead of a cushion of 1.73% to manage rising rates we now would only have 0.51% before restrictions would be placed upon Wauna. Note that none of this is because of failure on our performance. Without the impact of the NCUA handling of the corporate credit unions the Wauna net equity ratio at the end of 2013 would have been **10.08%**.



3. Imposing this structure of RBC upon us results in a combined taking of capital from Wauna Credit Union of **2.56%.**

4. This RBC structure is the third method used by the NCUA to reduce real estate lending. It is restricted by **Interest Rate Ris**k evaluation, by **Concentration Risk** restrictions and now to the extreme by **RBC.**

   We understand the NCUA is extremely concerned of what the impact of rising rates will be. We are also. We use an asset/liability manager with over 30 years' experience to regularly assess our interest rate risks, especially with the extended recession pricing down so much of the real estate portfolio. With the nature of the funding side of the balance sheet we perform well over a five year term after an initial dip at the one-year point.

   Based on current loan pricing, rates would have to increase 300 basis points before my alternative use of funds even returns as much as a mortgage loan. We will outperform in a flat rate scenario and in the rising rate scenarios the alternative use of funds that RBC would force on us beyond what interest-rate risk analysis and concentration risk stress testing indicates as limits.

5. With the taking of capital reducing the margin over the well-capitalized minimum to 0.51% it will impact the ability for Wauna to engage in mergers which would provide opportunity for cost efficiencies that will allows us to compete more effectively with larger institutions. This RBC change will force smaller credit union mergers to the largest of credit unions, diminishing that credit union values to members that sets us apart.

We urge the NCUA to reduce the biases in the RBC and follow the recommendations we see in so many other comments.

Thank you,

David Merrell
Chief Financial Officer
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