KINECTA
FEDERAL CREDIT UNION KEITH SULTEMEIER • PRESIDENT & CHIEF EXECUTIVE OFFICER

April 8, 2015

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Comments on Proposed Rule: Risk Based Capital

Kinecta Federal Credit Union ("Kinecta" or "Credit Union") appreciates this opportunity to comment on the Board's proposed changes to the Risk Based Capital ("RBC") rule originally proposed in January 2014 ("Original Proposal") amending part 702 of the NCUA's Prompt Corrective Action Regulations.

The Credit Union continues to support the adoption of a well-crafted capital framework with the objective of ensuring that a financial institution's required capital level is commensurate with its risk. The Original Proposal fell well short of this in our opinion; however, we believe that a majority of the changes proposed by the Board are welcome and certainly more consistent with this objective. Notable among these are:

- Removing interest rate risk from the RBC framework.
- Establishing the RBC threshold for "well-capitalized" at 10.00% of risk-weighted assets.
- Clarifying that the assets of a consolidated CUSO shall be risk weighted on a consolidated basis.
- Redefining a current loan as one which is less than 90-days past due.
- Revising the risk weighting of FHLB stock to 20%.
- Removing the cap on the amount of the allowance for loan and lease losses ("ALLL") that may be counted towards meeting the RBC requirement.

We also support the extension of the implementation period to allow for an orderly transition without undue disruption to otherwise safe and sound credit unions.

As set forth in our comment letter of April 28, 2014 on the Original Proposal, attached hereto, we continue to take exception to the proposed tiered risk weighting of select asset classes such as residential real estate loans and commercial loans based upon the concept of "concentration risk". This tiered framework is inconsistent with the well-established and time-tested framework followed by the other federal banking agencies. Additionally, NCUA offers no empirical evidence to support it's assertion that the incremental risk of a particular asset increases based solely on the proportion of the balance sheet comprised by that asset class. Even if this were so, logic then dictates that concentration risk be applied to every asset category and not just the select few chosen by NCUA.

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While the background narrative to the proposed rule cites real estate lending as the causative factor in a number of credit union failures during the most recent financial crisis, it is a misleading over simplification to assert that these failures were caused by real estate lending generally. We would stress that the primary causative factor of credit union failures was not the asset class but rather an environment of systemic and widespread departures from prudent lending standards. Such a departure can take place with respect to any asset, or for that matter, liability, class. A tiered risk-weighting framework is a poor substitute for sound lending practices, and it offers little protection when such are lacking regardless of balance sheet composition.

We believe that the Board's most recent proposal still fails to adequately consider a credit union's hedging activity. In fact, credit unions that choose to use derivatives to remove risk from their balance sheets are penalized for doing so. For example, a credit union that uses derivatives to hedge the price volatility of Mortgage Servicing Rights would still be required to count these assets at 250% whether hedged or not. In addition, the hedge instruments would carry a capital requirement based on a conversion factor applied to the notional amount of the hedge. Therefore, the rule requires that credit unions seeking to prudently mitigate risk carry more capital. We do not believe this makes sense nor do we believe it was the Board's intent. We recommend revising the proposal to address this weakness.

Additionally, the proposed rule differs from the Original Proposal in its treatment of mortgage loans sold into the FHLB MPF program. The Original Proposal is silent on the issue, but the revised proposal applies a conversion factor of 20% and risk weighting equivalent to that for first lien residential real estate to all outstanding FHLB MFP loans sold by a credit union. This is inconsistent with the treatment of the other federal banking regulatory agencies. If the NCUA believes this deviation is appropriate, it should at least give consideration to any repurchase reserves established by the selling credit union.

Thank you again for the opportunity to comment on the new proposed rule. We would welcome the opportunity to discuss our continuing concerns with you in greater depth or respond to any questions you may have regarding this letter.

Keith Sultemeier

KEITH SULTEMEIER
President & CEO