April 24, 2015

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, second proposed rule; RIN 3133-AD77

Dear Mr. Poliquin:

Thank you for the opportunity to comment on the second proposed risk-based capital regulation.

First we recognize all your efforts made toward crafting a second proposed risk-based capital rule after reviewing the 2,000+ comment letters received from the first proposed rule. Thanks for listening and making significant changes. Below are our comments concerning the second proposal.

1. We believe the current risk based capital regulation does not need to be changed. During the Great Recession, no evidence exits that natural person credit unions were undercapitalized. Furthermore, the current proposal exempts credit unions under $100 million from the proposed regulation. However, since 2009 there have been approximately 112 credit union failures. Of those failures, 94 were under $100 million; 11 were between $100 million and $200 million; and 6 were over $200 million. It seems the current risk based net worth proposal is ignoring a significant portion of risk to the insurance fund by excluding credit unions under $100 million. The point of this comment is not to include smaller credit unions in this regulation but simply to demonstrate that there is no need to change the existing risk based net worth regulation. I don't believe RBC2 would have lessened the loss to the insurance fund.

2. The Federal Credit Union directs NCUA to devise a risk based capital requirement that is comparable to banks but also requires NCUA to take into account the unique cooperative character of credit unions. The proposal does not appear to comply with section 1790d(b)(1)(B). We were unable to find any significant comments by NCUA in the proposal that addresses how the unique

structure of credit unions was taken into consideration when devising the proposal.

3. In our first letter, we made a comment concerning section 1790d(d)(2) which discussed the NCUA board establishing a 2 tier risk based net worth requirement, which appears to go beyond the Act. We continue to believe the intention of this section of law was to limit risk based net worth requirements to adequately capitalized credit union (i.e. credit union with less than 7% leverage capital). This section of the Act appears to compliment section 1790d(b)1(B) that requires the board to devise a risk based net worth requirement that takes the unique cooperative character of credit union into consideration.

4. The proposed regulation defines a complex credit union by asset size. Again after reviewing section 1790d of the Federal Credit Union Act, the Board is to develop a risk based net worth requirement for insured credit unions that are complex, as defined by the Board based on the portfolio of assets and liabilities of credit unions. We believe the intent of the Act was to come up with a definition of complex not related to the asset size but based on the financial complexity of the assets and liabilities of a credit union. Note that the Act includes liabilities to be considered. This clearly points that the intent of the law was to direct the Board to base credit union complexity on the financial structure of the balance sheet rather than simply asset size. Also we would argue that the majority of credit unions, in comparison to banks, are not complex. Most credit unions of all asset sizes have fairly straight forward balance sheets with primarily consumer loan and deposit structures. NCUA needs to come up with a better definition of complex.

5. The changes to the risk ratings were positive but the risk weight for CUSO investments and mortgage servicing rights are too high. Currently accounting rules require credit unions to properly value CUSO investments and mortgage servicing rights to reflect their true value. The risk weight of both of these assets should be no higher than 100%.

6. The proposed rule requires capital commensurate with its risks "notwithstanding the requirements" of RBC2 and PCA net worth requirements. This obviously is a prudent business practice and one we measure; but should not be part of the risk based net worth requirement. Each credit union is unique, to some degree, in their risk structures and assessing this risk. Credit risk, interest rate risk, liquidity risk, growth assumptions, expense position etc. all need to be considered as each credit union has a different financial structure. We believe placing this in a regulation will cause confusion during the exam process and lead to the examiner managing the credit union. More clarification in needed on how this would be used in the exam process.

7. We don't believe interest rate risk management should be part of any regulation. As mentioned above, each credit union has a unique financial structure from both a balance sheet and income statement perspective. All of these interdependencies need to be taken into consideration when measuring risk. There are multiple ways to measure interest rate risk. Attempting to come up with a regulation that establishes a standard for all credit union's considered complex would lead to unique risks not being considered. We believe the current supervisory guidance concerning interest rate risk is a proper way for an examiner to assess interest rate risk.

In summary, we believe the current risk based net worth requirement in place for PCA is sufficient for the credit union industry Natural person credit union failures compared to banks shows no evidence that credit union were undercapitalized during the last recession. Also it appears the Board is going beyond the requirements of the Act as it relates to creating a RBC structure unique to credit union, creating a 2 tier RBC structure, and defining a complex credit union. Lastly, dictating by regulation rather than by supervision, risk management techniques will lead to examiner micro management.

If you have any questions about our comments, please feel free to contact me at 651-747-8902.

Sincerely,

Dennis R. Bauer
Executive Vice President and CFO