



Kulm Office | PO Box 310 | Kulm, ND 58456
701.647.2448 | Fax 701.647.2449 | 877.304.0035

Ashley Office | PO Box 230 | Ashley, ND 58413
701.288.3439 | Fax 701.288.3430 | 877.588.3439

Hazleton Office | PO Box 225 | Hazleton, ND 58544
701.782.6841 | Fax 701.782.6831 | 866.782.6841

April 24, 2015

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

RE: Comments on RIN 3133-AD77; Risk-Based Capital

Dear Mr. Poliquin:

This letter is being written on the behalf of the Hometown Credit Union, located in Kulm, ND. At the request of our Board of Directors and our Management Team, I am taking this opportunity to provide comment to the National Credit Union Administration with regards to the amendments which have been proposed to Risk-Based Capital. The new comment period on the proposed amendments is set to run through April 27th, so I hope my letter, which will be post marked by no later than April 27, 2014, will be accepted.

Hometown Credit Union is a small agricultural Credit Union located in south-central North Dakota. We serve the communities of Kulm, Ashley, and Hazleton, North Dakota, all of which are farming communities and the total population within all 3 of our communities is roughly 1,500 people. Our members are primarily farmers and ranchers, many of which are 3rd and even 4th generation. We have about \$90 million in Assets, about \$80 million in Loans (80% of which are agricultural in nature), about \$82 million in Member Savings & CD's, and just over \$11 million in Capital. We are currently in our 65th year of operation and are a major source of capital within our communities.

I appreciate the NCUA's review of the comment letters submitted in response to the first proposed rule regarding risk-based capital. I also thank NCUA for listening to those comments and making significant changes to the original proposed rule. However, there are still a number of concerns that my credit union has with this second proposed rule and I am hopeful that you will again listen to our concerns. We are still opposed to the current proposed rule because, to be quite frank, we do not see the need to change the rules that were previously in effect. We felt they were fair and if enforced properly did not put the NCUA insurance fund at excessive risk. We feel that this whole Risk-Based Capital rule is still overly complex and should not even be considered for small credit unions such as ours.

Here are the points I would like you to consider before implementing the new Risk-Based Capital Rule:

#1

As proposed, 702.103 would define a credit union as complex if the credit union's quarter-end total assets exceed \$100,000,000. This means that the new risk-based capital measure could soon be applied to our small credit union, as we are currently at \$90 million and growing. The FCUA directs the NCUA to define complex based on the portfolios of assets and liabilities of credit unions. The proposed rule only bases complex on asset size. **The \$100 million threshold is far too low.** I would recommend that this be raised to at least \$250 million and more preferably \$500 million. Our small community credit union is very near to exceeding the current proposed threshold, and let me tell you, we are far from being a complex institution.

#2

As proposed, the rule would add a section, 702.101 in regards to capital adequacy. This section would state: (1) Notwithstanding the minimum requirements in this part, a credit union defined as complex must maintain capital commensurate with the level and nature of all risks to which the institution is exposed. (2) A credit union defined as complex must have a process for assessing its overall capital adequacy in relation to its risk profile and a comprehensive written strategy for maintaining an appropriate level of capital. My main concern is that an overzealous examiner could excessively scrutinize our policy and if they considered our risk profile too great, they could unilaterally require higher capital standards on our institution. We do not want the subjective views of an examiner to override our well-thought out policy. **I do not want a regulator, that may not even understand agricultural lending, to have the power to force excessive capital requirements upon our credit union.**

#3

As proposed, NCUA declines to permit credit unions to include other forms of supplemental capital in the risk-based capital ratio numerator. In discussion regarding the proposed rule, the NCUA notes that they prefer to await the outcome of previously proposed legislation that if passed by Congress, would expressly authorize supplemental capital as a component of net worth. If this passes the Board would then be able to decide whether or how to include such capital in the net worth ratio and the risk-based net worth requirement. My belief is that the new rule needs to permit secondary capital. **Therefore, the NCUA should most definitely permit the use of secondary capital and that needs to be written into the new risk-based capital rule.** Credit unions need to be governed by the same rules as the banking industry and banks have been able to utilize secondary capital within their calculations for a long-time.

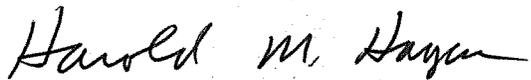
#4

As proposed, the NCUA is excluding consideration of Interest Rate Risk from the risk-based capital measure. This was a very positive change from the original rule, and has been well received. However, in the future NCUA intends to consider alternative approaches for taking into account the IRR at credit unions. I understand that the alternative approaches that NCUA is considering include adding a separate IRR standard as a subcomponent of the risk-based net worth requirement, in order to complement the proposed risk-based capital ratio measure. I believe that it is proper to leave IRR out of risk-based capital. In 2012 NCUA issued a final rule the required credit unions to develop and adopt a written policy on Interest Rate Risk management and develop a program to implement and enforce that policy. My concern is that the new rule will unnecessarily add IRR subcomponents to risk-based capital. **Leave IRR out of risk-based capital, as another rule is address IRR is not necessary and just adds another layer of excessive regulation.** The existing NCUA rules on IRR are sufficient to protect the safety and soundness of all credit unions.

These are the major issues that I wanted to address. I do want to add that I still feel that some of the risk weights are still too high and do not accurately reflect the risk associated with the assets they are being applied to. I believe that the risk weights for banks and credit unions should be standardized. No rationale exists to explain why one class of financial institution has to operate under more stringent rules, especially as it pertains to capital requirements.

Thank you for this chance to share my comments and concerns.

Sincerely,



Harold M. Hagen
CEO/President
Hometown Credit Union