April 20, 2014

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

RE: Comments on Proposed Rule: PCA - Risk Based Capital Regulation

Dear Mr. Poliquin,

Thank you again for the opportunity to provide comments to the National Credit Union Administration (NCUA) Board concerning the proposed rule on Prompt Corrective Action (PCA) and Risk Based Capital.

We appreciate the agency's willingness to re-evaluate its first proposal and applaud the removal of the interest rate risk component and the adjustment of certain risk ratings. However, there is still much to reconsider with the latest proposal.

Over the past year we've had the time to consider the implications of a risk based capital requirement, and have become increasingly concerned by its lack of usefulness, applicability and extremely high cost. As numerous commenters have submitted, what is the problem this rule is attempting to resolve? The two main threats to any financial institution are credit loss and lack of liquidity. This rule does nothing to measure either of these risks and instead imposes a huge financial burden on all parties involved, with little to no proven value.

An analysis from respected industry consulting firm Callahan and Associates indicates that there is little to no correlation between asset concentrations and credit losses. That makes perfect sense since the quality of the underwriting is the most important factor in estimating risk of loss, not the amount of dollars outstanding. Of course there are other factors that should be considered such as risks for economic downturn, but again this rule would not be useful in predicting possible loss scenarios.

In evaluating the failure of credit unions over the past ten years, 41% were caused by fraud. In addition, 85% of all failed credit unions over the same period were considered well capitalized 24 months prior to failure. This is evidence of a different problem than a lack of capital, and the proposed regulation does nothing to address or prevent this.

It is my opinion that the credit union industry, taken as a choice, and representing approximately 7% of all deposits nationally, does not represent a systemic risk to our nation. On this basis alone, the credit union system should be exempt from the one-size-fits-all risk based capital concept currently in place for our nation's banks.

Risk based capital has been in the banking system for almost 30 years and did nothing to predict or prevent the financial collapse of 2007-2008. It simply does not work. There is no reasonable way to use a "one size fits all" measurement of the inherent

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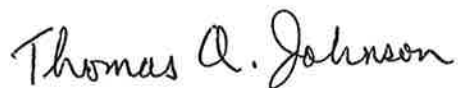
risk in our industry by applying a broad set of metrics that does not consider the underlying characteristics of those metrics. Knowing this, why go to the expense and effort to implement a rule that, as tested by the banking community through the Great Recession, neither predicted nor prevented a near collapse of the financial system.

Banking regulators are also questioning the value of risk based capital requirements. In a September 2012 speech to the American Banker Regulator Symposium, FDIC Vice President Thomas Hoenig said RBC doesn't work. "It turns out, that the Basel capital rules protected no one: not the banks, not the public, and certainly not the FDIC. The complex Basel rules hurt rather than help the process of measurement and clarity of information."

Instead of replicating what has already been proven to be a flawed and non-predictive model, I encourage the NCUA to be the leader in developing a progressive and meaningful measurement system of the risks in our industry.

Thank you very much for the opportunity to comment on this proposed rule and for considering our views.

Sincerely,



Thomas A. Johnson, CEO

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