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Anheuser-Busch Employees' CREDIT UNION

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March 13, 2015

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

Re: Comments on Proposed Rule: PCA – Risk-Based Capital II

Dear Mr. Poliquin:

On behalf of Anheuser-Busch Employees' Credit Union, please accept this response as input for the Risk-Based Capital II (RBC II) proposal. First of all, I would like to comment that this proposed capital rule is unnecessary and burdensome to the credit union industry that had the strength to withstand the effects, some continuing, of the recent great recession that put significant strains on the financial institution industry.

Contemplating that the Administration will continue with the implementation of a RBC approach, I do appreciate the changes that were made from the initial RBC proposal to this RBC II proposal. Majority of the changes were positive, especially in regards to the extension of the implementation date, the elimination of the cap on the allowance for loan losses, and the lowering of various asset weights. However, with this said, I do have several issues related to this proposal that needs consideration, some again, with this next attempt of implementing a reasonable and beneficial capital risk model:

Unanimous support – For a regulation that has gained so much attention and critiques (over 2,000 comments received with the first proposal) and for a regulation that will be very critical to the credit union industry, this RBC II proposal needed the full support of the entire NCUA Board. To have one of three board members (Board Member Mark McWatters) dissent on this proposal based on his views that the NCUA does not possess the legal authority to adopt a two-tier RBNW standard, brings a concern that the steps (and associated costs) that are being undertaken with this proposal and subsequent implementation, may all be for nothing. The NCUA should address and settle this concern prior to the issuance of a new and final RBC regulation.

Removing IRR components – I do agree with the removal of the attempted IRR components from the initial proposal, as all credit unions are different when it comes to their markets, core deposits, strategies, etc.; however, my concern is that a new independent IRR risk regulation will be implemented in the near future instead of dealing with IRR as part of the individual credit union examination process or as a part of overall capital adequacy considerations.

Credit union asset level cutoff – I do not agree with increasing the applicability threshold limit from $50 M to $100 M in assets. This new limit removes approximately 80% of the credit unions from the proposed RBC requirements and creates several concerns in the industry: 1) consistency in the credit union industry in how to deal with the examination and supervision process; 2) questions on the authority to implement a two-tier RBNW standard that would not be applicable to all in the industry (see earlier comment); and 3) suggestion that capital is not as critical to smaller institutions that have the majority of the same risks that larger credit unions face.

NCUSIF deposit – As pointed out in my response to the initial proposal, the Administration needs to reconsider the deduction of the NCUSIF deposit from equity (and from assets denominator). The proposal indicates many times that these RBC standards are necessary to reduce the risk to the NCUSIF; and as such, eliminating this NCUSIF deposit is contradictory to how the credit union industry attempts to manage the risks. This proposal also implies that the deposit is worthless and should be expensed versus the current method of capitalizing the deposit.

Investments in CUSOs – One of the reasons for the creation of a CUSO is to minimize the risks for credit unions by bringing together the necessary collaboration, expertise, and management of a particular business. If GAAP is followed for the valuation of a CUSO, the proper valuation of the asset should allow for the lowering of the risk weighting from the currently proposed weight of 250%.

Mortgage servicing rights – Even though the new proposal attempted to eliminate the IRR component, weighting MSRs at 250% is penalizing those credit unions for eliminating IRR risk on their balance sheet by selling longer-term fixed-rate real estate loans. For credit unions that have taken a conservative approach to the valuation of MSRs, a proposed weight of 250% may lead to a more aggressive approach.

Publicly traded equity investments – All credit unions are to account for investments in accordance with GAAP; therefore, all publicly traded equity investments should be either treated as available for sale or trading. These two methods of accounting require the investment to be recorded at market value and the description of "publicly traded" indicates that market value is easily determined. That makes the weighting at 300% highly excessive and needs to be revisited, especially with amount of class B Visa shares that are held by a significant of credit unions and with the employee benefit funding allowed by NCUA Regulation 701.19. Similar consideration should be made for the separately traded life insurance contracts.

Liabilities – As I indicated in the previous response to the initial RBC proposal, the liability side of the balance sheet is entirely ignored. Risks (or the mitigation of risks) exist on the liability side of the balance sheet too, not just from an IRR standpoint.

Again, I do believe that this second RBC proposal is a significant improvement from the first proposal; however, as indicated above, there are many additional changes to be considered and incorporated. We appreciate the Administration listening to the 2,000+ commentators from the first proposal and anticipate that the Administration will again listen to the commentators for this second proposal. Finally, we continue to maintain the hope that the Administration will not see a need for a RBC rule.

Respectively submitted,

Ronald Kampwerth

Ronald Kampwerth, CFO
Anheuser-Busch Employees' Credit Union