State Employees' Credit Union

Administrative Offices

May 12, 2014

Mr. Gerard Poliquin
Secretary, NCUA Board
1775 Duke Street
Alexandria, VA 22314-3428

REF: Risk-Based Capital: Commenting on Your Future –
Part 9: DISREGARDING GAAP: THE NCUSIF DEPOSIT FIASCO

Dear Mr. Poliquin:

One of the positive requirements of the proposed NCUA risk-based capital (RBC) rule is that credit unions must comply with "generally accepted accounting principles" (GAAP) - except, of course, when following GAAP becomes a regulatory inconvenience.

Under NCUA's proposed RBC rule, credit unions are required to "write-off" their 1% deposit which funds the cooperative deposit insurance fund (NCUSIF). But NCUA attempts to make this *"unaccountable"* accounting "sound harmless". NCUA misleadingly advises that it neutralizes the "write-off" by requiring credit unions to subtract it "from both sides of the balance sheet".

Clearly if according to GAAP "assets = liabilities", then subtracting 1% from each side (assets minus 1% = liabilities minus 1%) doesn't make any difference, the formula remains balanced. But that's not what's going on; NCUA is requiring credit unions to subtract the 1% from a very particular "liability account" - **your net worth account**. Take a look at what happens with a $100 million CU with 10 % net worth…

* Formula For Risk-based Capital: Net Worth / Risk Assets
(The formula is *not* "*total* liabilites/risk assets" !!!)

$10 million net worth/ $100 mill. assets = **10% risk capital**

* Now subtract $1 million from each side:

$9 million net worth/$99 mill. assets = **9% risk capital**

Under the proposed RBC rule at 9% the credit union's risk capital would fall from 10% to 9% and **the credit union is no longer "well-capitalized".**

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GAAP should not be used by credit unions nor by the NCUA only when convenient. The essence of generally accepted accounting principles (GAAP) is that the accounting rules are applied on a consistent basis.

Requiring the "write off" of the NCUSIF deposit is a firm vote of "no confidence" in the NCUSIF and the agency which oversees the NCUSIF. Equally, "writing off" the NCUSIF deposit unjustly depreciates one of the most valuable assets on the balance sheet of every federally insured credit union. Why? Because underlying the 1% NCUSIF balance sheet deposit of each credit union is **the "full faith and credit" of all other federally insured credit unions,** which have committed over $11 billion of their cooperative capital to fund any loss at any individual, federally insured credit union. Eleven billion dollars of **real, Credit Union Movement capital backing** each individual credit union – **an asset of tremendous real, tangible value, according to GAAP.**

The Agency may be ashamed of the NCUSIF and find it to be a complete "write-off", but neither credit union professionals, nor certified public accountants agree with that valuation.

NCUA should follow GAAP as required by federal law.

Sincerely,

James C. Blaine
President

JCB/ji