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May 13, 2014

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

RE: Proposed Rule - Risk-Based Capital

Dear Mr. Poliquin:

I appreciate NCUA's concern over adequate credit union capitalization in light of the current low interest rates, the inevitable rise in interest rates, and the changes in the makeup of the balance sheet in the credit union industry. If credit unions want to hold long term mortgages and long term investments, they should be held to a higher capitalization standard than those who don't have the same interest rate risk. But, there are many changes that are needed to improve the proposed NCUA rule.

I recommend the following changes to improve the proposed risk based capitalization rule.

1. The proposed rule gives NCUA examiners the ability to impose higher capital requirements on individual credit unions. Examiners should not have this authority. It's been seen time after time where the judgment of examiners are different from examiner to examiner depending on their experience, expertise and personality. Consistency and independent analysis are crucial where higher capital requirements may actually be needed. Authority to impose higher capital requirements should be few and far between and limited to only a higher level of NCUA management such as the Regional Director or the NCUA Board.
2. The proposed risk weight for share secured loans is 75%. Since these loans are fully secured, they should have a risk-weight of 0% to 25% at the most.
3. The risk weights proposed for member business loans are far greater than they need to be. We've been in member business lending for over 5 years and have never suffered a loss. The proposed risk weights would impose undue hardships to grow this asset and thereby hurt the availability of credit to small businesses in our communities at a time when economic and job growth is greatly needed.
4. Since the Federal Reserve will be one of our sources for liquidity (as recommended by NCUA), the risk-weight for cash on deposit at the Federal Reserve Bank should be 0%.
5. The 250% risk-weight on the total investments in CUSOs seems to be very arbitrary and way too high. It would make more sense if the percentage of risk-weight would vary depending on how long it's been established and how successful it has been financially, growth-wise, and service-wise. The proposed 250% risk weight may result in restricting credit union investments in CUSOs due to the high risk-weighting, even though the CUSO would be beneficial to the credit union. The 250% risk weight would seem to give some competitive advantage to for-profit, third

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party vendors. I would strongly recommend a risk weighting of 100% or less for CUSO investments and loans.

6. As with some of the other risk weightings, I'm concerned that the mortgage risk weights in the proposal don't accurately portray the actual risk in the mortgage portfolio. It seems fair that second mortgage loans would have a higher risk than first mortgage loans but it also seems fair that first mortgage loans with 50% Loan To Value (LTV) should have a lower risk than first mortgage loans with 90% LTV. Therefore, it would make sense to have multiple tiers of risk weights (at least two) for first mortgage loans based on the LTV.

These recommendations are not all inclusive but they are the ones that are pertinent to our credit union. As the proposed rule stands now, our capital cushion would shrink by a relatively small amount. That is because we have managed our asset risk in a conservative manner. Looking to our strategic plans, we intend to grow our member business loan assets and invest in a CUSO to offer our members expanded services. With the current economic difficulty in producing net income, the proposed rule would greatly hinder our growth and strategic plans.

Ultimately, the safety and soundness of a credit union depends a lot on good management of risk- any kind of risk. A credit union with high capital can fail due to poor risk management. We've seen that happen too many times. To subject credit unions to higher capital standards, at a time when margins are being squeezed and revenue streams are drawing down, seems onerous to me. The proposed high risk weights may result in credit unions realigning their assets by restricting member business loan growth, and reducing mortgage loan growth, thereby reducing credit availability to their members. The need for us to increase net income to meet the proposed capitalization requirements may result in higher interest rates on loans, lower dividend rates on shares, and increased fees. It's our member/owners who eventually get to "foot the bill" for this proposal. When our owners perceive less value in their credit union, it may put the credit union industry behind the eight ball for survival.

The resulting shift in policy and the raising of capital takes time in this economic environment. It could take much more than the proposed 18 months for some credit unions to increase their capital to satisfactory levels. After all, the regulators gave the small banks eight years to phase in their Basel-based risk weighted asset requirement. Why should credit unions have only 18 months to phase in our risk weighted asset requirement? Therefore, I would recommend a 6 to 8 year phase-in period for the proposed risk-based capital rule.

In the final analysis, if the rules and implementation schedule is not on a par with the small bank regulations, an unintended consequence of the proposed rule could be credit unions changing their charter to be a bank. That would be very bad for the credit union industry.

Sincerely,

Mac Dunaway

Mac Dunaway
President-Treasurer