

From: [CHRIS WOODS](#)
To: [Regulatory Comments](#)
Subject: Risk-Based Capital Comment Letter
Date: Friday, May 16, 2014 10:50:58 AM

Gerald Poliquin
Secretary of the Board
National Credit Union Administration

Dear Mr. Poliquin:

I am writing to express my personal views as the President/CEO of Keystone Federal Credit Union which serves, in addition to multiple SEG groups, underserved areas where our members are primarily Hispanics who have not been well-served by other financial institutions in that area. Keystone FCU has 7,856 members and \$79.5 million in assets. I appreciate the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action - Risk-Based Capital and its impact on Keystone FCU and, more importantly, its members.

Keystone FCU is well-capitalized today and would remain well-capitalized under the proposed rule. However, the proposed risk-based capital rule would erode our capital cushion, forcing us to limit growth and services to members who not only want, but in many cases, desperately need access to affordable products and services.

While I am not opposed to capital reform and agree that some sort of risk-based capital is necessary, there are several areas of the proposed rule which are of a grave concern.

Under the rule as proposed, the risk-weighting on real estate loans is restrictive and does not take into consideration past performance; investments in CUSOs are weighted as if the risk in each type of CUSO was exactly the same and will serve to reduce cost-effective credit union collaboration; and the proposal ignores the limits already in place on Member Business Loans.

Furthermore, short-term investments have a risk weighting of 20% while investments with maturities between one and three years have a risk weighting of 50%. There appears to be no consideration given to whether or not the investments are federally-insured. If so, the amount at risk would only be accrued but unpaid dividends and the difference between future earnings on a new investment versus the current investment. That, however, is an ALM (interest rate risk) consideration rather than a capital consideration.

Of significant concern is the weighting of investments in corporate credit unions. In the recent past, NCUA completely overhauled the structure of corporate credit union capital. As corporate credit unions are owned by, and serve, natural person credit unions, imposing risk weightings of 100% or 200% on capital invested in corporate credit unions essentially amounts to "double-dipping."

In addition to the concerns previously noted, I am extremely troubled that the rule allows for examiner subjectivity in requiring higher capital levels than that required under the proposed rule. Where is the clarity and the transparency between regulator and regulated? Nebulous rules and requirements do not serve credit unions, nor their members. Including this section of the rule basically gives NCUA the right to manage credit unions rather than their boards of directors. And, why have the rule at all if it doesn't really matter?

Under the proposed rule, the NCUSIF deposit is excluded from assets and equity. This gives me pause on several fronts. Is NCUA implying that the deposit should be expensed much as banks expense their insurance assessments? Is NCUA saying that the deposit is worthless? I would respectfully request that the agency reconsider its position on the NCUSIF deposit and treat it more consistently with its historical treatment.

Moreover, an implementation time of eighteen months after passage of the rule seems to be unreasonably brief given the long-term and significant impact of the rule on credit unions' strategic business decisions. Credit unions are generally only able to raise capital through earnings. A rule which requires additional capital while not providing sufficient time to restructure balance sheets is unnecessarily punitive to the credit union movement as a whole.

And finally, as I reviewed the proposed rule in its entirety I had several questions which recurred: Is this a capital rule? Is it a concentration risk rule? An ALM rule? A liquidity risk rule? While I support the efforts of NCUA to pursue a risk-based capital system, I believe that the rule as presented is flawed and should be modified.

Thank you for the opportunity to comment on this proposed rule and for considering my personal views on risk-based capital requirements.

Sincerely,

Chris

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Credit Union Cooperative Principles

**Voluntary Membership • Democratic Member Control •
Members' Economic Participation • Autonomy and Independence •
Education, Training, and Information •
Cooperation Among Cooperatives • Concern for Community**