Southland Federal Credit Union

May 16, 2014

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

Sent via E-mail to: regcomments@ncua.gov

Re: Southland Federal Credit Union Comments on Proposed Rule: PCA – Risk-Based Capital

Dear Mr. Poliquin:

This letter represents the views of Southland Federal Credit Union (SFCU) regarding the NCUA's proposal on PCA – Risk-Based Capital. SFCU chartered in 1963 is based in Lufkin, TX and serves the people living in Angelina, Houston and Trinity Counties. As a community based low-income designated credit union our assets are $31.9M and we currently provide financial services to over 4,700 members. Our main office is located in Lufkin, TX and we have one branch office in Crockett, TX. We have a slogan "Where people helping people really matters." and I tell people it is more than just a slogan, it is a core value in everything we do. At SFCU, we believe we will continue to grow as we are able to meet the financial service needs of the community. We believe one day we will be over $50M+ and therefore believe we should express our concerns on this most important proposal on PCA – Risk-Based Capital.

I have been in the credit union movement since 1973. I moved to Lufkin, TX to take over as the CEO here at SFCU in August 2008. In addition, I serve as the President for our local Pineywoods Chapter of Credit Unions and serve as the Vice Chair on the Cornerstone League Small Credit Union Committee. In addition, I serve as a committee member on the Cornerstone League Innovation and Collaboration Committee. Over the years I have told the credit union story. How credit unions got started and why credit unions are uniquely different from other types of financial institutions. I'm very proud to tell people that credit unions have never asked for a government bailout. Even during the great depression credit unions actually prospered, while many banks failed. In 2008 during the most resent great recession credit unions weathered this and did not ask for a government bailout. Banks tightened their lending and reduced their deposits while credit unions continued to find ways to help their members. Without the credit unions I do believe the economic recovery would have taken a much worse turn.

At SFCU we understand NCUA's intent to adopt new risk-based capital rule for credit unions that considers "all material risk". We note that under the Federal Credit Union Act NCUA is required to adopt a rule that is "similar to that available for the banking industry" but that "takes into consideration the unique structure of credit unions."

SFCU opposes the proposal as drafted. In our opinion, this proposal, if passed as drafted, would result in the loss in value members as credit unions would be forced to cease offering various services. The problem is, NCUA has not justified the reasoning behind some of the proposed provisions; they appear completely arbitrary. In recent years it seems credit unions are being treated more like a bank, when in fact we are very different. As financial institutions we both offer a wide range of financial services, however, as a credit union we are here to serve our member owners and are "not for profit" cooperatives providing financial education and financial services. We are not here to make a profit for an investment group of shareholders. At SFCU we understand that we must make a profit and from these profits set aside funds to deal with our potential losses based on the services we provide. In addition, we must be able to offer our services with competitive rates to attract and retain our membership.

Given a credit union's only source of capital is retained earnings, CU Boards and Management will feel pressure to retain earnings to build capital. This means paying lower dividend rates, raising fees, and charging higher loan rates in order to maintain a comfortable buffer for "well capitalized". None of these actions are in the interests of members. The need to factor "capital at risk" into every balance sheet decision will cause CUs to minimize other areas of risk, and most likely credit risk. Lending will likely contract further as Boards offset additional risk-based capital requirements by taking less credit risk with members at the margin who historically have needed America's credit unions the most.

Additional comments:

Definition of "Complex" Credit Union (Sec. 702.103)

Southland Federal Credit Union opposes the proposed definition of "complex" credit union. The proposal would define a "complex" credit union as ANY credit union with over $50 million in assets. There is nothing magical about $50 million in assets; size alone does not make a credit union complex. NCUA has provided no justification for expanding the definition of complex credit union.

Regulatory Burden ("Paperwork Reduction Act")

Small credit unions simply cannot continue to survive under current regulatory burdens. This proposal is one more example of unnecessary regulatory burdens impeding the ability of small credit unions to serve their members. Although many small credit unions will not be classified as "complex" and subject to the RBC requirements, the small credit unions are indeed still impacted by the proposal.

As drafted, the proposal increases the regulatory burdens of all credit unions, even those under $50 million in assets. This is attested to by NCUA in the "Paperwork Reduction Act" portion of the proposal which estimates the time burden for each credit union (not just complex credit unions) to collect risk-based capital ratio data at:

- One-time recordkeeping, 122 hours;
- On-going recordkeeping, 20 hours; and
- One-time policy review and revision, 20 hours.

That equates to over 160 hours of work (or one full month!) for a small credit union that might only have a couple of employees. Does NCUA really think it is reasonable that a small credit union should spend a month of the year on this rather than serving its members?

In conclusion, SFCU believes NCUA's Basel-based rule does not fit America's cooperative credit unions and will have detrimental impact on credit unions' ability to serve members. America's credit unions – since their inception - have been the model of risk management in the U.S. financial system. No other class of financial institution has been as resilient to risk as credit unions. Lack of a profit motive, a mission of service, cooperative ownership, and more, are all reasons for this performance. That fewer credit unions have failed throughout their history than any other type of financial institution is no accident.

Sincerely,

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