



MAY19'14 PM 1:32 BOARD

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

Re: Comment to the Proposed Prompt Corrective  
Action – Risk-Based Capital Regulation

Dear Mr. Poliquin,

On behalf of Prospera Credit Union, part owner of Business Lending Group, LLC, I would like to provide the following official comment letter regarding the NCUA's recently proposed risk-based capital rule.

Business Lending Group, LLC is a member business lending CUSO that was strategically formed in 1999 by three owner credit unions for the purpose of sharing resources and diversifying risk as they entered into business lending. Over the past 15 years, Business Lending Group has successfully provided full service Member Business Lending services to our owner credit unions.

I believe that the CUSO investment risk metric of 250% is excessive, especially compared to other risk ratings. For example, delinquent consumer debt over sixty days, as well as delinquent unsecured credit card debt, is risk rated at 150% and delinquent first lien mortgage loans are risk rated at 100%. Yet the credit unions investments in their business lending CUSOs that have added millions of dollars in interest income annually to the bottom line of credit unions are arbitrarily deemed riskier.

CUSOs provide a wide range of services. The one-size-fits-all CUSO risk rating does not take into consideration (a) what types of services are being provided, (b) whether the investment represents necessary operational expenses that would be otherwise incurred, (c) whether the amount invested is material, (d) whether the CUSO has a history of profitability, or (e) whether the investment amount has been fully recovered by the credit union through savings or income. Even if there is a risk assessment for the initial CUSO investment, there is no reason to continue to have a risk assessment if the amount of the investment has been fully offset by net income or cost savings for the credit union that was generated by the CUSO.

In addition to the concerns above about the risk weighting of CUSO investments, I am very troubled by proposed Section 702.105(c). Under the existing statutory net worth rules known as Prompt Corrective Action (PCA) regulations, credit unions have clear rules by which to run their credit union to avoid prompt corrective action by their regulatory agency. This section invites inconsistent and potentially arbitrary applications of the rules. If this proposed rule is not

removed, how can credit union boards and management make strategic business decisions if the NCUA can change the rules anytime they want?

To provide the clarity of capital and net worth expectation that a credit union board and management team must have in order to make strategic business and fiduciary decisions, subjective standards must be eliminated. Therefore, I believe, Section 702.105(c) should be deleted in its entirety.

Credit unions know first-hand the struggle to generate net income in today's economic climate. Interest rates are at record low levels. The operational costs, especially in areas of personnel costs, compliance and technology, are increasing exponentially. Coupled with strong competition from other financial institutions, most credit unions are experiencing challenges in generating quality loan growth with interest margins that aren't very thin.

It has been our experience that our CUSO has been extremely successful in helping the owner credit unions generate net income through growth of their member business lending portfolios. This provides the very capital that NCUA seeks. I encourage the NCUA to revisit the risk weighting proposed for CUSO investments so that the NCUA does not bring unintended consequence.

Thank you for the opportunity to comment.

Sincerely,

A handwritten signature in blue ink that reads "Sheila Schinke". The signature is written in a cursive style with a large initial "S".

Sheila Schinke  
CEO