May 27, 2014

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

Re: Comments on Proposed Prompt Corrective Action – Risk-Based Capital Rule

Dear Mr. Poliquin,

I am writing on behalf of Guardian Credit Union (GCU), a $243.0 million asset credit union serving over 33,000 members in seven counties in Southeast Wisconsin. With headquarters in Milwaukee, GCU is a Low Income Designated credit union that serves a growing and diverse membership since it was first chartered in 1934. GCU appreciates the opportunity to comment to the NCUA on the proposed Risk-Based Capital Rule.

GCU's Board of Directors and Management team strongly oppose the proposed Risk-Based Capital Rule. The credit union industry has performed admirably during the last economic downturn. **Why is this new rule needed in our industry?**

Our objections are two-fold: 1) the financial harm that this rule will inevitably cause credit unions and the communities they serve, and 2) the inconsistency this proposed rule has with past communications shared by the NCUA regarding the credit union industry and its future.

GCU joins many other credit unions in that it will be adversely affected by the proposed rule should it be finalized. GCU is currently "well-capitalized" – as of March 31, 2014, GCU had a Net Worth of 7.02% and a Risk-Based Net Worth of 5.15%. Under the proposed rule:

- GCU would drop to "adequately capitalized" with a Risk-Based Capital Ratio of 8.45%, putting us 2.05% under the proposed 10.50% "well-capitalized" classification.
- To return to a "well-capitalized" position, GCU would need to raise millions of dollars in additional capital.

To generate the additional revenues in needed capital, GCU would have three primary options:
- increase loan rates while decreasing deposit rates
- look for supplemental capital
- restructure our balance sheet

All three of these options would have an immediate, negative financial impact on our membership. It would be impossible for GCU, as a Low Income Designated credit union, to continue providing our members with low-cost loans if forced to increase loan rates and decrease deposit rates in an effort to generate significant additional capital as previously noted. Furthermore, GCU's financial stability would be jeopardized as such an

action would drive our members elsewhere in pursuit of lower rates, significantly decreasing interest income and future loan volume.

To seek out supplemental capital would mirror the effects of that mentioned in the previous paragraph as this action will lead to a cost of funds increase, causing inflated loan rates and decreased deposit rates to make up for the cost of the new supplemental capital.

The restructuring of GCU's balance sheet, while a theoretical option, would eventually lead to credit union homogenization, with all credit unions vying for the same piece of the pie. GCU feels that a cookie cutter approach to balance sheet management is not a prudent course of action for our members, nor for the industry at large.

GCU believes that we best serve our community by helping members buy homes and start local businesses; thus two of Guardian's major focuses are home ownership and member business loans. The risk weightings assigned by the proposed rule to member business loans, mortgage loan concentrations, and CUSO investments are significantly detrimental to a large portion of GCU's current portfolio and our future ability to serve our membership as they do not appear to be appropriately calibrated for credit unions.

GCU feels it is myopic to simply use higher risk weights on long-term assets in regard to interest rate risk without considering liability measures. Why are other factors (loan-to-value, duration of loan, credit score, adjustable vs. fixed rate loans, etc.) excluded from your proposed calculation? To calculate interest rate risk in the manner you proposed would be incomplete, inaccurate, and undermining to the credibility of this proposed rule. Furthermore, the aforementioned risk weightings are, in some cases, more stringent than the standards of Basel III. It seems counter-intuitive for credit unions, who arguably performed better than our banking counterparts specifically during the last recession, to be assigned even more restrictive regulation.

In addition to the financial burden that will be placed on credit unions and their members with the possible enactment of this new rule, there are other provisions in the proposed rule that make GCU question the rule's soundness and the NCUA's intentions.

- *The proposed rule creates new regulation.*
  I recently read Mr. Michael McKenna's, NCUA General Counsel, testimony to the House Financial Services Committee on April 8th, 2014. On page six of this testimony he says, "Under NCUA's ongoing Regulatory Modernization Initiative, the agency seeks to update and streamline existing regulations to reduce compliance requirements or expand the powers of credit unions, consistent with the law and without jeopardizing safety and soundness."

  It is unclear how the proposed rule is consistent with this testimony. The contrary seems to be the case as the rule does *not* streamline regulation; it limits our powers by requiring more capital to be held by the credit union to help our community; and it jeopardizes our "well-capitalized" credit union into a classification of an "adequately capitalized" credit union, creating a new safety and soundness issue for GCU in the NCUA's eyes strictly because of a new proposed regulation. To hold credit unions to this proposed rule would be to hold us to something that is not written in the Prompt Corrective Action section of the Federal Credit Union Act that can only be changed by the United States Congress.

- *The proposal allows NCUA examiners to increase a credit union's individual capital requirement during an exam based on the examiner's subjective determination.*
  Regardless of training, individual examiners have unique experiences and viewpoints. While GCU believes that examiners endeavor to render an objective review, it is only human nature to make determinations based on one's personal background, education, and experience. Such subjectivity would certainly jeopardize the integrity of the exam and unintentionally foster greater confusion on both sides and increase the likelihood of potential conflicts. Providing an examiner with the flexibility to establish subjective capital levels by subjective opinion is bad for credit unions and would be an unhealthy practice potentially leading to considerable inconsistencies. This tactic feels heavy-handed, and we feverishly object to giving examiners this unfettered and unique power.

- *The proposed effective date of the rule is unrealistic and punitive.*
  The NCUA is proposing that the rule would go into effect approximately 18 months after the publication in the Federal Register. This would not give credit unions like GCU adequate time to plan for and properly implement the new risk-based capital requirements. GCU may need to alter its balance sheet, raise supplemental capital, and raise loan rates to membership while determining a way to remain competitive in the marketplace and for our membership. If the NCUA passes this rule, GCU would request (at a minimum) the same implementation timeline with which the FDIC provided the banking industry regarding risk capital changes.

In summary, GCU appreciates the opportunity to respond to the Risk Based Capital proposal. The proposed rule, as currently written, will restrict asset growth and provide for a one size fits all industry, which overshadows the purpose and intention of the proposal. Specifically, GCU believes the shortcomings of the proposed rule will limit loans, deposits, and services to our membership, thus undermining our industry's overall mission and commitment to its members.

Sincerely,

Steven T. Wesson
President and CEO
Guardian Credit Union

CC: The Honorable Gwen Moore, U.S. House of Representatives
The Honorable Paul Ryan, U.S. House of Representatives
The Honorable F. James Sensenbrenner, U.S. House of Representatives
The Honorable Ron Johnson, U.S. Senate
The Honorable Tammy Baldwin, U.S. Senate