Catholic & Community
CREDIT UNION

MAY 28'14 AM11:07 BOARD

May 23, 2014

Mr. Gerard Poliquin
Secretary to the NCUA Board
1775 Duke Street
Alexandria, VA 22314

Re: Risk Based Capital Proposal

Dear Mr. Poliquin:

On behalf of Catholic and Community Credit Union I appreciate your consideration of the following comments regarding this proposal. Our credit union has 13,000 members and 115 million in assets. My tenure as CEO covers more than 19 years during which I have seen the credit union industry change greatly, some for better and some for worse. I fear that if this proposal were implemented as it is proposed we would all see credit unions change for the worse. Let me point out a few examples that many others before me doubtless have already described much more eloquently.

Under the proposed rule our credit union will remain well capitalized but our capital cushion would shrink to only 8 basis points to remain well capitalized. We would see a -161 basis point change to our capital cushion. We are <u>not</u> a troubled credit union. We have a good Camel rating. We did nothing to create the most recent financial crisis but lost a large capital deposit when our Corporate CU was conserved. Now this proposal will remove the capital cushion that we have successfully struggled to rebuild in an economic environment that isn't kind to a credit union that wants to reward both its depositors and its borrowers.

Our credit union operates in an extremely competitive lending market that makes it difficult to gain market share while maintaining reasonable credit risk. As a result we have quite a few investments and consequently very limited credit risk overall in our balance sheet. We have a robust ALM system in place to assist us in monitoring and managing interest rate risk. Our long term asset ratio is below our peers. None of this is taken into account by the proposed regulation.

Obviously we will not be able to continue to operate in the same manner in which we are currently operating. The proposal gives us only 12 to 18 months to adjust to the regulation. In the interest of fairness a 4 to 5 year timeframe makes more sense.

NCUA

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The banking industry was given years to adjust to their new regulations. Our credit union along with most of the rest of the industry is struggling in the area of ROA. Responding to this regulation will require quick adjustments to our business model. It will hurt our members. It will hurt our ROA by increasing expenses and lowering asset yields and could therefore lower our Camel rating.

The risk weights do not seem to be fair. We will be able to make all the unsecured loans that we want but will have to severely limit mortgage and business loans. The proposal doesn't consider quality of underwriting or types of mortgage and business loans a credit union offers to control risk. We suggest that you take into consideration the quality and features of these kinds of loans. Additionally we disagree with the high risk rating for mortgages to be sold. Selling mortgage loans can be a useful risk mitigation tool.

We don't have any investments or loans to CUSO's but hopefully you can work with those who use CUSO's and create a better way to risk weigh CUSO's. 250% seems unreasonable and will serve as a barrier for credit unions to use this cooperative concept to save money and/or help their members.

Please remove the ability of an examiner to increase risk weights. It is an idea that looks better on paper than in actual practice. Examiners come and go. Balance sheets are just not that adjustable. If an examiner is concerned about the balance sheet composition there are other ways for them to address it other than by increasing risk weight measurements. Naturally if you leave this as a tool for the examiner to use they will take advantage of it and I believe it has the possibility to be very bad for credit unions and their members.

Please do not remove the NCUSIF deposit from the calculation. Additionally the ALLL allocation should be 1.5% although I suspect that you are limiting it to counteract your encouragement of higher risk consumer loans. Anyway both of these changes seem to have serious issues with GAAP and even common sense.

The current (RBC) proposal as a mathematical formula.

RBC = Higher credit risk, Increased loan losses, Less CUSO's, Higher expenses, Lower earnings, Lower liquidity, Less capital growth, Limited growth, Fewer members, GAAP issues, Less credit unions, Less competition = Very Happy Banks.

Hopefully the NCUA can stop, and work together with the industry to create a regulation that won't hurt credit union's but will still address the goals that NCUA desires or is mandated to do. With congressional support a new proposal that works to help credit unions find alternate ways to supplement capital would be helpful.

Please remember that credit unions as a whole have never caused a financial crisis, and during the last crisis not only did credit unions survive well but they also served and helped their members through the crisis. Credit unions are very different than banks. Building our capital directly takes away from return to our members. This proposal seems to forget all of that, and instead like an infected tonsil, joins the other side and threatens the health of the entire industry.

Sincerely,

Kenneth Bossung
President, C&CCU