From:	Donna Bullard
To:	_Regulatory Comments
Subject:	From Donna Bullard-Comments on Proposed Rule: PCA - Risk-Based Capital
Date:	Friday, March 07, 2014 12:13:25 PM

On behalf of Clarkston Brandon Community Credit Union, I would like to provide the following official comment letter regarding the NCUA's recently proposed risk-based capital rule.

We believe that the CUSO investment risk metric of 250% is excessive especially as compared to 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 investments in CUSOs that have added millions to the bottom line of credit unions are arbitrarily deemed riskier. We do not understand this reasoning.

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.

While there are some CUSOs that are designed to return a profit through dividends, many CUSOs provide a return to the credit union owners by the reduction of operating costs or fees paid directly to the credit unions in the form of networking fees and not dividends. NCUA's choice of equating a CUSO to a bank investing in an illiquid small business, misses the true risk and return factors. For example, when a credit union is deciding whether to pay the expenses for running an operational service through the credit union or its CUSO, money has to be expended by the credit union either way. If multiple credit unions pool their funds in a CUSO to provide an operational service, the money pooled is not an investment in the classic sense and should not be risk rated as such. If the credit unions choose a CUSO to provide an operational service, it is because each credit union will save money, and often receives greater expertise than they could afford on their own. Why must risk capital be reserved by the credit unions in order to save money and generate net income?

We have been advised that NCUA intends to apply the CUSO capital risk rating to both the cash investment made by the credit union *and upon the appreciated value in the CUSO*. We find it hard to fathom that NCUA would penalize the success of a CUSO by requiring that the credit union reach into its pocket and set aside additional capital on the profits earned by the CUSO.

Unlike the banking investment powers, the CUSO risk exposure is limited to an immaterial level. There are only 22 basis points of credit union assets invested in CUSOs industry-wide; less than the aggregate corporate assessments. Each federal credit union may only invest less than 1% of assets in CUSOs. Credit unions could lose all their CUSO investments and the loss would not be material yet the upside potential could be very significant. NCUA would be making a big mistake by not recognizing the adverse policy implications of applying the inconsistent BASEL bank investment risk ratings to CUSO investments.

In addition to the above referenced concerns about the risk weighting of CUSO investments, we are also very troubled by proposed Section 702.105(c). Unlike under the existing statutory net worth rules known as Prompt Corrective Action (PCA) regulations, credit unions will no longer have clear rules by which to run their credit union to avoid prompt corrective action by their regulatory agency. NCUA can "move the goalposts" any time they want. Why have any tables of risk rating if the levels can be changed on a credit union by credit union basis?

This proposed section invites inconsistent and potentially arbitrary applications of rules. 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, in our view, Section 702.105(c) should be deleted in its entirety.

It has been our observation and our experience that CUSOs have been extremely successful in helping credit unions generate net income and the very capital that NCUA seeks. We want to share those observations and experiences.

We have been using a CUSO, CUAnswers for our data processing for over ten years. This company has brought innovative and well researched opportunities to credit unions such as ours in areas that we would never have been able to take advantage of on our own. They care about credit unions! We have become an investor in this CUSO and have had returns on our investment that exceed any others that we hold. Our credit union has been fortunate to belong to this CUSO and has been able to grow services and help members in ways that would not be possible without its existence.

It seems that by implementing this structure of Risk Based Capital, credit unions and their CUSOs will once again be penalized and the members we serve will be hurt in the process. Let's please rethink this and make sure that we aren't implementing and harming more credit unions and their members with actions that aren't necessary.

Sincerely,

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