Comment Letter regarding 12 CFR Parts 700, 701, 702, 703, 713, 723 & 747. Prompt Corrective Action – Risk Based Capital

Dear Secretary Poliquin,

On behalf of the nearly 24,000 strong-membership of Tobyhanna Federal Credit Union, it is my pleasure that I write this comment letter. As the President and CEO of a nearly $200,000,000, 60 year old, growing and thriving Credit Union in Northeast Pennsylvania, the first issue that comes to mind is how this proposal will impact our ability to deliver the products, services and community-support that sole goal is the betterment and loyal service to our membership.

After thoroughly analyzing the Board's proposal, we would certainly hope that the Board reconsiders it proposal based on the following observations:

1) **Discounting the ALLL Balances to 1.25**. This specific inclusion doesn't correlate with the purpose of this proposal. The risk-based nature of our Credit Union are evident in our Allowance Accounts. For example, a Credit Union with high credit risk standards will have an inverse ALLL balance to a Credit Union with liberal credit risk. The proposal seemingly takes the control of credit risk management away from the rightful owners of it: Credit Union Boards and their Management Teams. The 1.25 discount will cause Credit Union's to alter their business plans and manage their balance sheets around a ratio, rather than a holistic risk management approach.

2) **Laddering the quantitative risk-based metrics for Investment Maturities**: This specific inclusion again takes away a Credit Union's ability to manage its own maturity risk. This measure seemingly and swiftly strikes at all ALCO Committee's in all Credit Unions and takes our right and ability to manage our portfolios in a risk-based manner, tailored around the unique needs, risks, measures and weights of our own balance sheets. This measure specifically eliminates the analysis of prepayments, and rather assigns an arbitrary risk measurement based on the simple life of the investment at its inception.

3) **Laddering the quantitative risk-based metrics for Loans**: This specific inclusion I find very troubling because it fails to take into consideration the qualitative risk-management processes properly run Credit Union's should have in place. The growth and management of a properly balanced, risk-based loan portfolio should be the task of the Board of Directors and their respective Management Team. This measure, if passed, will have us toss our respective Strategic Plans and Business Plans into the rubbish bin and rather manage our growth into select, low targets; regardless of whether or the loan product is key to our markets. For example, the specific concentration to asset limits and applicable risk weights are arbitrary, at best. The risk-based model which is proposed is seemingly a laddered method to diversify one's balance sheet, not effectively manage risks. Some Credit Unions have fashioned their balance sheets around mortgage lending as opposed to consumer lending. In this proposal, they're effectively penalized if they were in fact managing their balance sheet properly. This is especially obvious with Credit Union's operating in the Northeast of the country.

4) **Unfunded Commitments**: This specific inclusion raises many questions and concerns. The presence of unfunded commitments on one's balance sheet should not bear any risk-based weight. For example, a Credit Union may have high unfunded commitments for a Credit Card Program. While others may have high commitments for their Real Estate Program. Applying a universal risk-weight to a category without regard to the product or nature behind the commitment is unreasonable. For example, instead of having a 40 year member whom never uses his Credit Card line continue to have the peace of mind that it's available to him, some Credit Union's may be forced to make a decision to lower the available lines for otherwise loyal, wonderful members.

After a thorough analysis of the various factors, some might begin to wonder if the exclusive purpose behind this proposal is to indirectly manage a Credit Union's ALCO Committee. Many risk-values are tied to ALM processes.

- *Discounting the ALLL balance strikes at credit risk.*
- *The upward risk-weighted measured to laddered maturities associated with investments strikes at maturity risk.*
- *The upward risk-weights measured to certain loan products strikes at qualitative risk management and concentration risk.*
- *The unfunded commitments risk weights strikes at liquidity risk.*

Whist the proposal, in its totality, is well–meaning, the end result will be a handicapped Credit Union Movement tailoring their business plans around a calculator, rather than allowing a healthy, well-balanced Credit Union for the exclusive benefit of its membership.

Respectfully submitted,

Sean E. Jelen

President & Chief Executive Officer

Tobyhanna Federal Credit Union