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Gerard Poliquin
National Credit Union Administration
1775 Duke Street
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Mr. Poliquin:

Thank you for the opportunity to comment on the NCUA's proposed new Risk Based Capital requirements.

O Bee Credit Union is a mid-sized credit union located in Washington State. With $185 million in assets and 20,000 members, O Bee is also one of the fastest growing credit unions in our area, having double digit membership and loan growth over each of the past few years.

The reason for our growth is that our area was hit particularly hard during the last recession. Many banking customers were dismayed with the situation and have instead moved into local credit unions. This feeling, even today, continues.

However, as currently presented, the new capital rules will significantly hamper our ability to meet the needs of local citizens. With a loan to share ratio of nearly (and sometimes over) 100%, virtually every dollar deposited has a corresponding member who needs it – for their business or for their family. Depending upon the types of loans made, the higher net worth requirement is moderate (13% more capital needed for an auto loan than under current rules) to extreme (88% for other Real Estate greater than 10% of assets).

Since none of these changes will be enhancing the *numerator* in this equation, we must look at impacts on the *denominator* instead. As such, the credit union would most likely:

- Restrict lending on higher weighted loan types such as real estate. This will especially impact low to mid income members who use the equity in their homes to finance improvements and education.
- Restrict credit card lending for those who have low balances, i.e. the "emergency card" members (as capital is required even on unused credit lines). A review of our data indicates that these are older and possibly retired people.
- Curtail branch expansion plans as the capital level required has increased by 50% for fixed assets. This would impact rural communities where the credit union saw needs.
- Eliminate or reduce investments in technology due to higher capital

The current plan could be amended in several ways, however, which would decrease (but not eliminate) these negative consequences:

1. Allow for *averaging* of risk assets like the current formula allows. We are seasonal and have large deposits early in the year.
2. Reduce the majority of weights so that the new capital x weight roughly works out to the current 7% PCA level. Currently, an auto loan carries a weight of 75% x 10.5% = 7.88%
3. The levels of capital required for HELOC and other real estate loans is absurd and would force the credit union to substantially limit or even quit these types of loans. This will then force membership to go back to banks or mortgage brokers.
4. Eliminate the gaps between banking and credit unions weights and measurements. This would include Investments, Member Business Lending, Real Estate and especially the 60 day delinquency rule (banks have 90 days)
5. Eliminate section 747.2006. The so-called “get into jail free card”. This section has no checks or balances.
6. Have jumbo CD investments, if insured by the FDIC or NCUA, at 0% weight.
7. Push for supplemental capital. In this way we can work on the *numerator*.

Among the stated goals of the change is to better identify troubled credit unions. However, an empirical review of *Telesis* which, by any means, is an example of a credit union in need of watch does not show that the new method would have identified problems any faster than the existing methodology. If this is true, or too many “false positives” are created, then the process is suspect (source: Tom Glatt @ www.glattconsulting.com).

Finally, the bigger issue – the elephant in the room, as it were is that the industry is declining, annually, by about 300 credit unions per year. It would appear that the changes contemplated will increase this rate. Whether this is part of the plan or a distasteful aftertaste, it should be discussed.

Regards,

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