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Gerald Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 2231403428

Re: Comments on Proposed Rule: PCA – Risk-Based Capital

I have been the President/CEO for iQ Credit Union in Vancouver, Washington since 1985. We are a $540 credit union with 50,000 members. I would like to discuss some serious problems that I see with the National Credit Union Association's (NCUA) Risk-Based Capital proposal.

First, I question why NCUA believes a second capital requirement should be implemented when the existing Prompt Corrective Action framework currently exists and has been approved by Congress. This country has just emerged from one of the worst economic crisis ever and credit unions were there to help their members and survived quite well.

NCUA's primary function is to ensure the safety and soundness of federally insured credit unions. The existing Prompt Corrective Action rules allow NCUA to effectively ensure this function. This was demonstrated in the last financial crisis. Credit Unions survived and emerged from this crisis better than any other type of regulated financial institution. The major losses that the National Credit Union Share Insurance Fund recorded could have been significantly reduced by NCUA acting within their existing powers. The final report regarding three large losses stated that NCUA should have instituted quicker actions in every case. Strong and sound management practices already in place allowed credit unions to emerge from this financial crisis in a good position.

Congress has determined through part 702 of the NCUA Rules that Prompt Corrective Action of 7% is well capitalized. Under the new rule 10.5% becomes the floor for being classified well capitalized. My reading of the Federal Credit Union Act does not allow NCUA to create an additional capital standard for a credit union to be well capitalized. Credit union's capital defined as well capitalized, demonstrated an appropriate level to help survive the financial crisis. NCUA is proposing to amend part 702 of its regulations regarding Prompt Corrective

Action and replace its current risk-based net worth requirements with new risk-based capital requirements for federally insured credit unions without demonstrating good cause.

We can only raise capital through our retained earnings. Our ability to raise capital quickly would threaten many credit unions. Any proposal that would indicate a rebalance or repositioning of the balance sheet must consider the effects or raising capital and/or controlling growth.

For iQ Credit Union this rule would impose unplanned effects upon the balance sheet. We would fluctuate between being well-capitalized and adequately capitalized due to changes in growth patterns. To balance the new capital requirement would force a reduction in mortgage loans regardless of the interest rate or credit risk inherent in this type of lending that we have been active in for over 35 years. Our member business lending would need to be started and stopped depending upon our new capital levels. We would also need to avoid holding other long-term assets. One area where improvement can be made is where consumer loans risk weight at 75% while other financial regulators assign a 100% risk weight. This takes into account the adverse posture credit unions take. This should be applied to all aspects of this regulation.

One of the most disturbing aspects of this proposal is where NCUA would allow the judgment of examiners to require an individual credit union to hold additional capital above PCA or even the new 10.5% limit. This is too far reaching and places NCUA in a position that allows NCUA to manage credit unions. This conflict exists where the insurer and regulator have only one interest (the NCUSIF) to protect. Allowing examiners the ability to require credit unions hold additional capital based upon vaguely defined criteria should be removed.

Many risk weights are higher than bank risk weights. For this reason alone I do not believe the risk weights are correct. The rule applies a higher risk weighting on mortgage and member business lending. We have a history of lower charge-offs and lower delinquency than banks, so the reasoning to have high risk weighting in these areas is in question.

Loan attributes are not taken into consideration for weighting in areas where loan-to-value ratios, fixed or variable loan rates, loan repricing opportunities, loan maturities or other risk mitigation strategies credit union's use to manage risk. Home equity loans with conservative loan-to-value ratios or 80% or less are risk weighted higher than unsecured consumer loans. This does not make any sense to me. The portfolio interest rate risk is ignored and for the most part credit risk is not carefully considered in this proposed rule.

Risk Based Net Worth is a concept that could be beneficial to the credit union system in managing risk. The leverage ratio for credit unions should be adjusted (lowered on well and adequately capitalized credit unions) to help NCUA measure risk while still allowing credit unions to better serve members.

NCUA wants to place this rule in effect about 18 months after publication in the Federal Register. This does not give credit unions sufficient time to implement the new risk-based capital ratio requirements and reposition their balance sheets to align with their strategic plans and NCUA reviews of this rule. Banks, given their new Basel III risk weighting program, have 9 years to implement.

As stated above there are many problems with this rule. There should be no rush to implementation until corrective actions can be considered. I am opposed to any rule that would require credit unions to hold more capital than banks.

Sincerely,

Roger Michaelis

Roger Michaelis
President/CEO