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NCUA
OFFICE OF THE CHAIRMAN
APR 24 2014

April 16, 2014

National Credit Union Administration
Ms. Debra Matz, Chairman
Mr. Michael Fryzel, Board Member
Mr. Rick Metsger, Board Member
1775 Duke Street
Alexandria, VA 22314

Dear Ms. Matz, Mr. Fryzel and Mr. Metsger:

As President of Arsenal Credit Union (ACU), I am concerned about the recent risk-based capital (RBC) proposal by the NCUA. This proposal is the most important rule facing our credit union at present and would adversely affect ACU (assets $200M) and our 25,600 members.

If applied today, ACU would barely meet the minimum risk-based requirement of 10.50%. At 10.66%, ACU would barely exceed the "Well Capitalized" level.

ACU's net worth ratio at year-end 2013 was 9.02%, a 29% cushion over the minimum required for the "Well Capitalized" category under prompt corrective action. This "ideal" level of capital is reviewed annually at ACU's strategic planning session and takes into consideration key short-term and long-term business and financial strategies. The 29% buffer provides for growth swings in assets and optimizes a competitive advantage and member safety.

To reestablish a 29% cushion, the capital ratio would need to be at least 13.55%. Under RBC, ACU could need as much as $8M in additional capital. This equates to a need for a 50% increase in total net worth at the current level of earnings. Assuming no asset growth, it could take 15 years to accumulate the additional capital.

If the rule goes into effect, ACU would immediately reduce its healthy cushion of 29% to 0.16%, a margin far below what most credit unions would consider a satisfactory equity position. One could argue that each risk factor is already in the 10.50% base. But, it is generally understood that the statutory net worth requirement is merely a minimum starting point. A number of additions to the requirement have always been encouraged and expected by examiners. To further support this position, the proposal allows the NCUA to impose even higher RBC requirements, case by case. This gives the NCUA very broad authority that is not clearly defined. A predefined calculation gives credit unions the ability to manage and control predefined limits. What constitutes a major or minor risk or issue? What is a reasonable amount of any addition?

Banks' capital requirements are far less than those proposed by credit union regulators. Yet the proposal imposes an enormous cost of additional capital for a system that withstood, under the current system, the worst financial crisis in 80 years. How can the NCUA justify the enormous increase?

Accumulating too much capital will impose a huge opportunity cost on members. These funds should be used for paying higher dividend rates, charging lower loan rates, investing in technology, expansion, new products and services, and other member benefits. Is holding on to earnings a prudent business decision in today's competitive market?

It is my hope that you consider the following:

- Reduce the thresholds of 8.0% and 10.5% to 7.5% and 9.0%;
- Lower risk weightings for mortgages, member business loans and long-term assets. Consider using Basel III to assign weights;
- Remove the provision allowing NCUA to impose even higher RBC, case by case;
- Define when a CU is adversely affected by CUSO activities;
- If adopted, allow credit unions a 24- to 36- month transition period

This rule will have a significant, adverse impact on ACU's ability to serve members, particularly through small business loans and mortgage lending, which carry a higher risk rating.

If America's credit unions are to remain competitive and fulfill our mission, we must take new risks while fully understanding and managing the impact. Creating an environment where excessive risk aversion prevails will only discourage credit unions from attempting and succeeding in endeavors like member business lending.

Your proposal is not in the public's best interest and will be paid for by the current and potential members of credit unions. I encourage you to take a closer look at and consider changes before applying a final rule.

Sincerely,

Linda D Allen

Linda G. Allen
President/CEO
Cc: Don Cohenour, President/CEO, Missouri Credit Union Association (MCUA), Bill Cheney, President/CEO, Credit Union National Association (CUNA), Ken Bonnot, Deputy Director, Missouri Division of Credit Unions