From:	Joan Filson
To:	_Regulatory Comments
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I was the Public Affairs Officer at NCUA from 1980-85, one of the most interesting and innovative periods in credit union history. I worked for three Chairmen -- Larry Connell, Ed Callahan and Sen. Roger Jepsen -- to present the activities and results of the cooperative system to the public.

I am writing about NCUA's proposed risk based capital rule because I believe it will fundamentally alter the culture of the credit union model, resulting in credit unions' acting more like banks, not member-owned cooperatives. Here's why.

In NCUA's **1984 Annual Report** the forwarding letter from then Chairman Ed Callahan contained the following observation:

The only threat to credit unions is the bureaucratic tendency to treat them, for convenience sake, the same as banks and savings and loans. This is a mistake, for they are made of a different fabric. It is a fabric woven tightly by thousands of volunteers, sponsoring companies, credit union organizations and NCUA-all working together.

The concept of "working together" by all components of the system resulted in many positive results including:

- The Report of the **National Credit Union Capitalization Commission** (May 1982) which encouraged every level of the credit union system to increase focus on capital adequacy. The result was to raise the capital assets ratio from 6.1% in 1980 to 7.0% in 1984—during a time when assets grew over 15% annually. The Commission had representatives from leagues, CUNA, NASCUS, NCUA, CUNA Mutual, Corporates and individual credit unions. All members contributed to the Report's 39 recommendations for the structure and implementation of capital planning for the cooperative system.
- The voluntary capitalization of the Central Liquidity Facility by all corporates so that every credit union had access to this cooperative liquidity lender of unfailing reliability.
- The restructuring of the NCUSIF along cooperative principles, wherein 1 cent of every insured share was deposited in the NCUSIF, to provide a stable earnings base on top of the .3% insured shares held in retained earnings.
- The successful response to the largest FDIC insured bank failure ever to occur to that point in time--Penn Square bank. Almost 100 credit unions including half a dozen corporates had invested in CD's in excess of the $100,000 FDIC insured limit. No panic, no new rules, just patient use of all the resources of the system to allow credit unions to recover from this unexpected loss through future earnings.
- The unprecedented and extraordinarily successful largest credit union system conference (almost 3,000 attendees) ever in December 1984 in which all federal and state regulators

and credit unions joined together for four days of open sessions to learn from each other while discussing the most pressing issues for the cooperative system.

These results and many others, such as the opening up of the common bond, were implemented during a time of severe economic uncertainty. Interest rates and unemployment in the early 1980's were both in double digits. The manufacturing sector was becoming a rust belt as firms relocated from the upper Midwest to the Sunbelt.

The accomplishments above were achieved by all parties working with a common purpose and vision to make the cooperative system the most respected and responsive financial option for consumers.

So distinctive was the credit union record that at one Congressional hearing in the early 1980's a congressman asked Chairman Callahan why credit unions were not in the same difficulty that the banking and Savings and loan industry were experiencing with deregulation. Chairman Callahan replied that it was because the industry had worked together to empower the boards and managements to make the fundamental business decisions for their members.

An example of this decision making relevant to the present risk based proposal is Recommendation 5 from the Capitalization Commission's report which read: Each credit union board of directors develop policies to manage risk as part of its capital adequacy analysis.

Since the 1980's, credit union boards have an exceptional track record, far better than their financial competitors, of managing risk on a credit union by credit union basis. This volunteer leadership and management implementation has kept the system safe, responsive to local needs and excelling in personal service.

The greatest threat to this superior track record of cooperative capital management is to treat credit unions like banks, for the sake of bureaucratic convenience. Risk based capital was brought on by the shortcomings of the bank system and the conflicts between shareholders' drive for returns versus the moral hazard of public share insurance. This rule would severely compromise the unique success and decision making culture of member-owned cooperative model. This rule should be withdrawn.

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Submitted by Joan Pinkerton Filson, April 30, 2014