State Employees' Credit Union

Administrative Offices

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Secretary, NCUA Board
1775 Duke Street
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REF: Risk-Based Capital: Commenting on Your Future – Part 3: PENALIZING SAFE INVESTMENTS

We all know that NCUA's proposed RBC rule will significantly increase the capital costs for credit unions and, therefore, will increase the financial costs to members seeking mortgages and business loans from their credit unions. When NCUA requires more capital for a CU service, **NCUA is essentially mandating an increased "tax " or "fee"** ***on the credit union member*** for that product or service. NCUA unilaterally and seemingly without justification "makes up" and then simply imposes these new "capital taxes" on credit union members! No dialogue, no research, no quantitative proof, and no accountability to Congress for those taxed. **What ever happened to "no taxation without representation"?**

At the simplest level, credit unions do just two things with members' share deposits - make member loans and invest the rest! Credit unions have always invested their members' funds conservatively, mostly in T-bills, government agency securities, FDIC-insured institutions, or other state/local government obligations. Definitely *"nothing too fancy"*!

Here's NCUA's Proposal:

	Capital Required	
	Bank	CU
1) Gov't Agencies & State/Local		
*<1 yr. term:	20%	20%
*>1 yr. < 3 yr. term:	20%	50%
*>3 yr. < 5 yr. term:	20%	75%
*>5 yr. <10 yr. term:	20%	150%
*>10 yr. term:	20%	! 200%

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	Capital Required	
	Bank	CU
2) State/Local Revenue bonds:		
*<1 yr. term:	50%	20%
*>1 yr. < 3 yr. term:	50%	50%
*>3 yr. < 5 yr. term:	50%	75%
*>5 yr. <10 yr. term:	50%	150%
*>10 yr. term:	50%	200%

So after punitively taxing members attempting to make mortgages and business loans at credit unions; the NCUA now doubles, triples, and may even *require 10 times more capital* for credit unions investing in low-risk securities – *penalizing CU member returns.* Are the investments somehow "riskier" when they are held on a CU balance sheet as opposed to being held by a bank? Absolutely not! Does that sound reasonable and fair? Of course not.

American consumers and all credit unions deserve to know:

"How did NCUA *"come up with"* the much higher risk weightings required on conservative CU investments? Why are the NCUA capital requirements *"more robust"* than those for institutions regulated by the OCC, FDIC, or the FED?"

NCUA must certainly have a well-researched, well-documented rationale for requiring these abnormally high capital requirements. We all look forward to seeing and understanding that justification.

Sincerely,

James C. Blaine
President

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