Pathways
Financial Credit Union

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Mr. Gerard Poliquin
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Dear Mr. Poliquin:

We are writing on behalf of Pathways Financial Credit Union, a $223 million federally insured, state chartered credit union which serves 26,735 members who live, work, worship or attend school in the Central Ohio counties of Delaware, Franklin, Madison and Union. We appreciate the opportunity to provide comments to the NCUA on its proposed Prompt Corrective Action – Risk-Based Capital rule. While we are in general agreement that the implementation of a risk-based capital standard is a necessary evolutionary step for the credit union movement, there are many aspects of the proposed rule that strike us as being flawed. Our primary concerns are as follows:

- With regards to the risk ratings that are being proposed particularly for Member Business Loans and mortgage loans, these ratings seem out of synch with the Basel III capital standards for the banking industry. From the standpoint of the credit union movement, an industry by industry comparison of the loss ratios in these two asset classes reveals that credit unions have conducted lending in a more prudent manner than banks, yet the risk weightings for credit unions in the proposed rule are higher than the standards adopted by the banking industry. Closely related to this issue is the fact that, while banks have the ability to raise supplemental capital, credit unions currently can only develop capital internally, through the accumulation of undivided earnings. This factor makes the incongruences of the risk ratings all the more glaring.

- While many credit unions can take today's balance sheet, run it through the calculator on the NCUA website, and see no changes to their capitalization status, can the same be said when a credit union runs a projected balance sheet five years from now through the calculator? Credit unions have been making sound and prudent lending decisions for many years, while at the same time making an effort to keep fees lower than our banking industry counterparts. This rule, if adopted as proposed, could have a profound effect on the core member service philosophies of credit unions. Today, our primary mission is to find ways to make good loans to our members. Under the proposed rule, we will be penalized for making those loans, and will need to find additional ways to maximize non-interest income in order to accumulate additional net income in order to ensure an adequate capital buffer. Instead of serving our members, our primary mission will be oriented towards increasing earnings in order to accumulate capital. Does this sound like the preferred strategic directive for a not-for-profit financial cooperative?

- Among the most severely risk rated categories are CUSO ownership and mortgage servicing rights. Credit unions primarily form CUSOs in order to collaborate and create economic efficiencies. The imposition of such a severe risk rating for CUSO ownership will dissuade credit unions from ownership of these organizations, thus impairing cooperation within the credit union movement – cooperation that currently directly benefits credit union members. In the same vein, credit unions often retain mortgage servicing rights in order to benefit their members by not allowing servicing to be sold when a credit union sells a loan to the secondary market. Credit unions don't want members getting a letter every year from a new lender that has purchased their loan, and members don't want to receive these letters either. They have a relationship with their credit union, and retaining servicing rights enables credit unions to continue servicing these loans, even when making a prudent, Asset / Liability Management-based decision to sell these loans on the secondary market.

- Further commenting on the proposed risk rating for mortgage loans, why is there no differentiation between fixed rate longer term loans, and adjustable rate mortgages that reprice at a much shorter duration level? NCUA clearly seems to be concerned about capital erosion from both a concentration risk and interest rate risk standpoint, so why is not interest rate risk factored into the proposed risk rating for mortgage loans?

- We are troubled by the fact that, under the proposed rule, NCUA would be able to impose higher capital requirements on an arbitrary, case by case basis. If a risk-based capital standard is to be put into place, then all industry partners (credit unions, their regulator and insurer) should be held to those standards. There doesn't seem to be any purpose in proposing a rule that sets forth certain standards, only to allow those standards to be arbitrarily applied on a case by case basis.

- Finally, we have issues with the proposed 18 month timeframe from when the rule is adopted in its final form to when credit unions must be in compliance with it. The banking industry is being presented with a much longer timeframe to comply with its new risk-based capital standards. Even NCUA has given itself 25 months to implement its newly adopted CUSO rule. With the advent of such a profound change in strategic balance sheet management for credit unions, should not more time be granted to allow credit unions the ability to prudently manage their balance sheets in order to be in compliance?

On behalf of Pathways Financial Credit Union, we sincerely appreciate the opportunity to present our views on this proposed rule, as well as your consideration of such. If you have questions or need further clarification of our views, we may be contacted at our respective e-mail addresses below.

Sincerely,

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