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May 1, 2014

NCUA
Gerard Poliquin, Secretary of the Board
1775 Duke Street
Alexandria, Virginia 22314

To Whom It May Concern:

Please accept this correspondence as comment on the recently proposed Risk-Based Capital Rule.

We get it. Risky balance sheets demand greater scrutiny and subsequently a more aggressive approach to protecting against said risk. Likewise, it would appear as though the attempt is to align the revised risk weights in order to be more consistent with other banking agencies. As a regulator and an insurer, whose primary reason to exist is to "protect the insurance fund," your action appears tantamount to your role. Respectfully, we believe that your proposed actions have went much too far on a number of fronts, however in the interest of time, our comments remain focused on just a few items directly related to our LICU/CDFI status.

Sadly, there will be collateral damage. There always is for the critical mass when action is taken to deter the actions of a few. We would ask that you reassess the potential collateral damage to our credit union and others like ours that are classified as a LICU, CDFI financial institution.

As mentioned, we are concerned with two specific weightings. The first is the delinquent loan weighting. As a LICU/ CDFI, our loan portfolio is primarily made up of non-prime and sub-prime loans. As a result, the propensity for our portfolio to experience a higher delinquency is much greater. We ask for an understanding of the inherent likelihood of higher delinquency given the risks of a population that have very little monthly cash flows and even less in "for emergency" assets. To penalize us for serving a historically disenfranchised and marginalized population seems to fly in the face of why LICU/CDFIs received the designations to begin with.

The NCUA position may be that the compensating consideration for the higher delinquency is accounted for in the numerator due to increased earnings as a by-product of effective risk-based pricing. Yes, this would feign to be correct until one considers that those increased earnings are rightly being returned to our members in the form of less fees, more locations, expanded services, etc. The LICU/CDFI credit union is the perfect business model to improve the socio-economic well-being of historically underserved communities. The proposed action purports to force credit union leadership to return less earnings to the market place in order to compensate for the higher delinquency. Philosophically speaking, I can't imagine NCUA wanting to diminish our credit union's position to serve the least of us.

Secondly, the proposed weighting taken against credit unions who have investment in CUSOs seems to be arbitrary and capricious. In our case, the investment has afforded both improved service to our members and a strengthened income statement. To penalize us for finding ways to do what we do better and more economically is counter-intuitive to sound leadership.

I would be willing to bet that nowhere to date (within the NCUA hierarchy) has discussion ensued regarding the impact on LICU/CDFI credit unions and our ability to serve the underserved. It seems rather paradoxical that credit unions of our ilk would be negatively impacted given NCUA's concerted effort and continued trumpeting of the need for LICUs and CDFIs to flourish in order to meet the charge for the reason we exist. The irony would be humorous should it not be so tragic.

Thank you for your time and allowing us the opportunity to voice our opinion.

Sincerely,

Patrick K. Adams
CEO