From: Madison County Federal Credit Union

To: National Credit Union Administration

RE: Prompt Corrective Action Risk-Based Capital Comment Letter

I am writing on behalf of Madison County Federal Credit Union, which serves Madison County Indiana. We have 11,500 members and $70,000,000 in assets. We appreciate the opportunity to provide comments to the NCUA on its proposed rule, Prompt Corrective Action - Risk-Based Capital.

As the rule is currently proposed, Madison County would fall below the 10.50% Well-Capitalized ratio. We are profitable, but have seen significant asset growth due to market factors and our reputation for providing good service and for being a safe institution. The current form of the regulation would undercut both the service we will be able to provide, and the faith our members have in our safety.

We do see the need for risk weighting. We do not agree with the factors that are being used. To impose higher ratings on asset categories than are imposed on banks doesn't merely imply that credit unions aren't as capable of handling those assets, it openly declares that we aren't as competent. The NCUA is clearly stating that it believes that these assets are deemed more "risky" in the hands of credit unions than they are in the hands of banks. This undercuts not only the way the public should view credit unions, but the way credit unions view themselves. We ask that the NCUA place at least as much faith in credit unions as the FDIC places in banks.

We also do not agree with the proposal to allow for higher Capital requirements to be applied on a case-by-case basis. The only way that would be acceptable is if one Examiner examined every credit union in the United States. History has shown us that different Examiners can react differently to the same situation. The NCUA has worked to eliminate this, but it will never be completely wiped out. Examiners are people, and they all come at situations from different viewpoints. Their experience colors their view. It is not fair to credit unions to be subject to the multi-layered viewpoints of Examiners any more than we already are. This part of the proposal opens the door for capriciousness, incompetence, inexperience, personality conflicts, and a bad day to completely alter the future of a credit union.

We have specific concerns with the proposed risk weightings on several categories:

CUSO Investments: I am not aware of a rash of CUSO's going under, so I'm not certain why they warrant extra weight. We currently hold $89,000 in our processing CUSO. We've held it for 7 years, and it has returned a dividend every year. The financials are reviewed quarterly. Why should we be punished for pooling resources with other credit unions?

Mortgage Loans: Mortgage Loans can present Interest Rate Risk, but they are also the most significant part of the financial lives of a majority of Americans. Increasing the risk weight on mortgages will only discourage credit unions from playing an important part of their lives. The NCUA will effectively force us to tell members that we're here for their car loan and checking account, but that they should go somewhere else for their mortgage because we can't handle it.

Member Business Loans: If the NCU doesn't want credit unions to do MBL's then they should just ban them. MBL's that are written to industry standards are no riskier than any other loans, and in many cases are safer. They are monitored much closer, and have higher standards when given. This will take credit unions out of the Business Loan space, and it will be to the detriment of credit unions and their members.

Participation Loans: If these loans are underwritten to industry standards there is no reason to weight them higher. These loans are effectively underwritten by the original lender and the Participant. The NCUA examines the Originating credit union, and allows them to make the loans. There shouldn't be a penalty for purchasing part of those loans. There is no proof that responsibly underwritten Participation Loans are any riskier than other loans.

We also have an issue with the implementation timeline. It is not easy to completely rewrite your Business Plan and rework your Balance Sheet. This takes several years, as banks were given. Asking credit unions to do this in such a short time is unreasonable and arbitrary. Credit unions will be forced to make drastic changes in an unreasonably short timeframe. It feels like we are being forced to catch up with the banks in an unreasonable timeframe because the NCUA didn't choose this path sooner.

The Board members and staff at Madison County Federal Credit Union work every day in difficult economic conditions to provide the best service possible for our members. We believe that the proposal to go to a risk based capital system is reasonable. We believe that the current proposal undercuts our ability to serve our members.

Thank you for considering our views on risk based capital requirements.

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