OREGONIANS
CREDIT UNION

May 6, 2014

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
Alexandria, Virginia 22314-3428

RE: Comments on Proposed Prompt Corrective Action-Risk Based Capital Proposed Rule

Mr. Poliquin:

I thank NCUA for the opportunity to comment on the proposed risk based capital rule (RBC). As the CEO of Oregonians Federal Credit Union I am writing on behalf of its board of directors and over 21,000 members. I have been employed by OFCU since 1981 and as CEO for 30 years. Needless to say I have experienced the many changes that have taken place in the credit union community along with economic conditions that have included interest rate scenarios ranging from near zero percent to over sixteen percent. I have also experienced more NCUA exams than the majority of my peers. Needless to say during these numerous exams I have seen the 'problems-of-the-year' NCUA and its examiners have perceived.

I admit that the credit union community has experienced a great deal of change since the early 1980's. This change has included a product profile that carries more risk. We have gone from just making a large number of consumer loans, and offering basic deposit accounts and credit insurances to offering long-term mortgage products, a full array of insurance and investment products along with business loans and to holding wide array of investments that were unheard of in earlier days. The fact is that credit unions are on average larger, more complex and carry more risk than they did in 25 to 30 years ago. That begs the question, is the added risk that much greater to the share insurance fund than when the fund was set up?

Thirty years ago at the end of 1984 the capital ratio for the credit union community was about 6.7%. At the end of 2013 NCUSIF insured credit unions had an average capital ratio of 10.78% or about 40% more than thirty years before. That is a significant change but there is another change that should be pointed out. Thirty years ago 5.7% of credit unions were classified as a 4 or 5 under the early warning system in use (EWS). At year end 2012 (last NCUA annual report available) under the CAMEL rating system that still has the same classification scale of 1 to 5, only 1.8% of insured credit unions were classified as a 4 or 5. That is a decline of about 69%. There is one less year in comparing troubled credit unions to capital ratio growth, but the trend seems to show that credit unions have greatly improved their capital while greatly reducing the risks that they pose to the insurance fund.

I do not desire to comment on each of the proposed risk ratings for loans and investments. However it appears that the writers of the proposal are not sure what risks they are trying ti mitigate and are attempting to encompass all possible risks in one fell swoop. This makes no sense and has a potential to irrationally harm some credit unions and in the end the memberships they serve.

I am including some comments to show my point about attempting to mitigate all losses with a simple ratio for each loan or investment type:

Loans: The proposal sets a risk weight of 50% for first mortgage loans totaling 25% or less of assets, 75% for the same loan type if the total outstanding is between 25% and 35% of assets and then 100% for total balances that exceed 35% of assets. Such arbitrary numbers do not take into account loan to values, borrowers' ability to pay, credit history, interest rates or rate options. Is the loan that causes all balances to exceed one of the thresholds a riskier loan than one that was put on the credit union's books earlier? Of course not. This appears to be capricious when a comparison is made to the risk ratings that the FDIC has given to community banks for such loans. Their risk rating does not increase as a portfolio size increases in relation to total assets as they include the term "prudently underwritten". NCUA's approach shows a bias against real estate loans and risks limiting the availability of real estate loans for members.

The proposal has similar thresholds with higher risk ratings for MBLs as balances in relation to assets increases. Like the proposal for real estate loans, this does not take into account the actual risk of the loans but is an arbitrary increasing risk rating that can ignore the facts of a MBL program that can be very beneficial for a credit union and its members. This shows an NCUA bias against MBLs that may be warranted in some credit unions but is unfair to most others. This proposal can cause harm to a credit union that operates a safe and sound MBL program and can limit the availability of loans to small business.

The proposal includes a risk rating of 75% for vehicle loans and most forms of 'consumer' loans. This is the same as for real estate loans up to 25% of total assets while 'other real estate-secured loans' carry a risk rating of 100% to 150%. Credit unions in our area are making large numbers of vehicle loans for terms of 7 years and frequently lend 25% to 40% *greater than the actual purchase price*. They make boat and RV loans for terms of 10 to 15 years with small down payments. Few equity loans are made unless there is more equity than the amount loaned. To risk rate equity loans the same as high-risk, longer term consumer loans just makes no sense! Terms, IRR and underwriting standards need to be taken into account instead of risk rating based solely on loan type.

Investments: The proposal increases the risk ratings of securities based on weighted average life (WAL), not by amounts outstanding. This ignores both credit risks and interest rate risk but assumes that IRR is automatically increased. This does not take into account embedded options that may mitigate IRR nor does it take into account a balance sheet structure that can be beneficial to hold some longer term investments.

The proposal of a 1,250% risk rating for not having "a comprehensive understating of the features" of an investment. *Frankly this is just an insult to the credit union community and has no place in this proposal*! We have had too many conversations with examiners that have not fully understood investments but have had attitudes that if they do not understand, credit unions likely do not either.

CUSOs: The proposal has a risk weight of 250% for investments in CUSOs. This does not take into account the tenure, profitability or success of a CUSO or its service to a membership. This is just arbitrary and capricious and shows an NCUA bias against CUSOs. It makes no sense to penalize credit unions and their members for successful CUSO operations.

In summary, we recognize that credit unions have become more complex and that some adjustments to capital standards are in order. But the current NCUA proposal appears to set unjustified limits for various assets that seem to show a regulator's bias instead of taking into account prudent underwriting or asset-liability management.

We speculate that the biases shown are based on a recent past where larger than normal losses on real estate secured loans and MBLs were experienced by the industry and some investments allowed by regulation proved unprofitable or even caused some losses (albeit corporate CUs). But overall the industry did not experience huge losses as shown by its healthy capital ratio exceeding 10.7%. Yes a small handful of credit union operators may have taken extraordinary losses on real estate loans and MBLs and investments but the entire industry did not and proved to have plenty of reserves to cover their losses.

We think NCUA should amend its proposal and eliminate its biases by adjusting many of the proposed risk ratings. NCUA should not attempt to regulate based on what has happened at a small number of credit unions. The proposal should take into account prudent underwriting for loans and asset-liability management and not just assume that a loan *by name* should have high risk ratings. Well run entities and their memberships should not be penalized because of what other entities have done of by what might happen in worse case scenarios.

Sincerely,

Chuck Garner
President/CEO