May 6, 2014

To: Gerald Poliquin
Secretary of the Board
National Credit Union Administration

From: Joe Wasaff
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This letter is responding to the risk based capital regulation being proposed by the NCUA.

For sake of discussion, let's divide US credit unions into three categories. The divisions are not all-inclusive.

CATEGORY ONE CREDIT UNIONS

Major Characteristic: Strong SEG or Sponsor Support

Category One credit unions could be $50mm or less in assets or well over $1 billion in assets. They might have only one office serving 500 members or multiple branches serving over 100,000 members, serving one SEG or multiple SEGs plus the community. But the overriding characteristic of Category One credit unions is, no matter how many members they serve or branches they have, that there is one or more large SEG(s) or sponsor(s) providing them strong support. Examples of SEG or sponsor "strong" support for Category One credit unions:

a) Free or low-cost rent in-plant/building, free utilities, janitorial, telephone
b) In plant/building communication with SEG employees—electronic bulletin board CU advertising, distribution of CU marketing materials, company emails, and/or
c) In-plant/building orientation for new employees about the CU, and/or
d) SEG Human Resource staff encouraging new employees to join the CU and, current employees/members to borrow, save and utilize other CU services, and/or
e) In-plant CU-owned ATMs and/or kiosks
f) The supporting SEG(s) sponsors the CU as a company benefit, even though, perhaps, the CU does not bear the SEG's name, and/ or has multiple SEGs, and/or also has a community field of membership.

Category One credit unions' "strong SEG or sponsor support" could originate from the "type" of credit union it is--military, federal, state, or city governments; associations; or companies/industries. However, a credit union's asset size is irrelevant to being classified as Category One.

More than likely, Category One credit unions will not be affected by the NCUA Risk Based Capital proposal because, due to strong SEG or sponsor support, they do not need to take undue risks identified in the risk based capital proposal… unless they lose strong SEG or sponsor support—e.g. sponsor closes military base, or SEG merges with another company, or SEG goes out of business, or SEG no longer wishes to sponsor the CU for liability reasons or needs to reduce operating expenses.

CATEGORY TWO CREDIT UNIONS

Major Characteristic: Moderate to Mediocre SEG or Sponsor Support

The major characteristic of Category Two credit unions is they have moderate to mediocre SEG or sponsor support. Unlike Category One credit unions, their survival is at stake.

The reasons why these credit unions cannot muster strong SEG or sponsor support is because—

a) many large companies have one or more lawyers on staff advising management that CU sponsorship/support is a liability. These companies do not want a strong relationship with their credit union. The SEG's Legal Department discourages management from advertising the credit union as a company benefit.
b) many companies now have a "no-solicitation" policy which applies across-the-board, including the credit union they "support."
c) due to business privacy and the risk of breaches and terrorism, SEGs have tightened security. Many SEGs do not allow CU staff to visit the company to conduct orientation for new employees or even to enter the facility for any other purpose.
d) per the Wall Street Journal, company mergers have become a customary way of conducting business. Quite often the surviving company wants to divest itself from the history and former name of the merging company and thus it does not want to inherit the merging SEG's tag-a-long credit union.
e) over the years, credit unions have lost public image. Many non-SEGs do not want to support or become affiliated with a credit union.

CATEGORY THREE CREDIT UNIONS

Major Characteristic: Mainly a Community Credit Union. Relies Heavily on the Community with Little or No SEG Support

Category Three credit unions mainly have a community FOM—either 100% community or largely a community FOM, with a few SEGs who offer little support. Usually Category Three credit unions are federal credit unions who had to choose between being strictly a SEG or community FOM—an unfortunate occurrence when more restrictions were placed on FOM expansions. Category Three credit unions are out on a limb, fighting to hold on. They must take more risks to survive than Category One or Category Two credit unions. They rely on business loans, real estate loans, longer term investments, and sales to the secondary market to generate income in order to thrive and grow.

CONCLUSION

US credit unions and the NCUA share common ground. Together, we want our industry to be safe and sound, to preserve the NCUSIF, and to prosper. I understand why the NCUA wants to implement risk based capital requirements. However, the regulatory agencies have built **high fences** around us--field of membership restrictions, capital requirements, more rules and regulations, and now, the risk based capital proposal.

Category Two and Category Three credit unions need space to continue being viable financial institutions. These credit unions are in a fight for survival.

I propose that you lower the fence:

the “well capitalized” from 10.5 percent and above to 8.0 percent and above;

the “adequately capitalized” from 8 percent - 10.49 percent, to 5.5 percent - 7.99 percent;

the “undercapitalized” from less than 7.99 percent, to less than 5.5 percent.

Category Two and Category Three credit unions have major challenges. They must have the freedom to grow, in conjunction with member financial needs and the new technologies. The proposed eight percent is reasonable and sufficient to check these credit unions from taking undue risks.

NCUA staff undoubtedly have the experience and expertise to identify the risk factors of the risk based capital proposal. However, some subjectivity had to play a part in assigning the weight to each risk factor. There’s room for adjustment. I suggest that NCUA re-work the weights of each risk factor to arrive at the above proposed capitalization requirements.

Sincerely,

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