peach state
FEDERAL CREDIT UNION
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May 6, 2014

Gerald Poliquin, Secretary to the Board
NCUA
1775 Duke Street
Alexandria, VA 22314-3428

Dear Mr. Poliquin:

I am writing as the CEO of Peach State FCU to make the NCUA Board aware of my concerns with the proposed Risk Based Capital requirements. Before making my comments, I would like to provide some information about myself and our credit union.

I hold a Business Management degree from Campbell University in North Carolina where I majored in Trust Management. Much of the course work involved investments, fiduciary law, economics and money and banking. I have spent 40 years in the financial services sector holding numerous managerial positions in banks, service bureaus and a credit union.

For the past 20 years, I have been the CEO of Peach State Federal Credit Union. During that time, we have grown from $14 million to over $264 million in assets with only about $37 million of that growth coming from a few recent mergers. Because of our strong growth (15% annually), we have had to manage our capital position carefully and we have become very comfortable living in a world of 7 – 9% net worth. Had your proposed Risk Based Capital regulation been in place when I came to the credit union, I doubt that we would have achieved the growth and success of the past 20 years. And, if the proposal is not modified, we will be forced to curtail some of our lending activities and buy US Treasuries in order to keep our RBC ration above 10.5%.

I am opposed to the proposed Risk Based Capital (RBC) for several reasons. You already have a simple risk-based tool which alerts NCUA examiners to "look behind the numbers" when the ratios fall below a predetermined level. This has served the system quite well since its inception in 2000. Total losses in natural person credit unions over the past 10 years, a decade which included the real estate bubble, the worst financial meltdown and economic crisis in over 75 years amounted to less than a billion dollars. When you take out fraud and/or deliberate violations of regulations, that number gets even smaller. Chairman Matz spoke about losses approaching $750 million. Now, that is a big number but spread over 10 years and viewed as a percentage of the insurance fund, it is really quite small especially considering the aforementioned economic conditions. And by the way, isn't that the purpose of the insurance fund? To eliminate all or virtually all losses would be counterproductive because "no risk, no reward." Managing risk is the role of each financial institution on a micro level and managing systemic risk on a macro level is the role of NCUA. Perhaps NCUA should consider using the proposed RBC system as a more robust "alert tool" for knowing when to "look behind the numbers."

Instead of copying the other financial regulators with a new RBC scheme, NCUA should be holding up the credit union model and its capital requirements as a shining example of how a well capitalized system works. NCUA did a commendable job of working through the corporate failures and they have done a great job of enabling numerous "workout" situations which have resulted in continued service to members and reduced losses to the insurance fund.

Between 2001 and 2011, total losses from failures amounted to $890 million. About $225 million came from credit unions under $50 million in assets and they are not covered by the proposed RBC regulation. Of the remaining $665 million in losses, $170 million came from the liquidation of one Cleveland credit union due to fraud and $40 million in losses came from Eastern Financial Credit Union CDO investments purchased through WesCorp and which were done with proper approval and agreement by the NCUA. After those two aberrations are subtracted, the NCUSIF lost about $455 million in a decade. Once again, celebrate this and please don't attempt to micro manage from a macro level.

Sincerely,

R. Marshall Boutwell
President/CEO