May 08, 2014

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

VIA Email: regcomments@ncua.gov

Re: Comment to the Proposed Risk-Based Capital Regulation

Dear Mr. Poliquin:

Michigan Business Connection, LC (MBC) is a commercial lending CUSO owned by Michigan credit unions and our State trade association. Our services primarily include helping Michigan credit unions originate and manage business loans. On behalf of MBC, I would like to provide the following official comment letter regarding the NCUA's recently proposed risk-based capital rule.

I reference and endorse the letter submitted by NACUSO dated March 4, 2014. That letter exposes the apparently incomplete assessment conducted by NCUA relative to the proposed rule, and its danger to the credit union system if adopted. I urge you to postpone action on the proposed regulation until more complete and transparent information can be considered.

While the proposed rule contains numerous objectionable provisions, as noted by NACUSO and others, I will comment on those where I believe I have the most direct and specific personal insight. The core of my concern of the proposed rule is rooted in:

- One size fits all governance is irresponsible and threatening to the growth and competitiveness of the industry
- NCUA's use of well known CUSO failures as justification for the need for greater restriction manipulates the truth and facts of these examples.
- The actions taken over the past several years by the NCUA relative to CUSOs in general and business lending specifically are inconsistent with the successes achieved and value provided to credit unions and their members.
- From personal experience, I observe that the field relationships between examiners and MBL CUSOs have never been better. CUSOs that operate with missions aligned to credit union and member success are partners with those credit unions and their examiners and advocates for safety, soundness and service. The negative messages emanating from Duke Street appear disconnected from what's really working on Main Street.

The CUSO investment risk metric of 250% appears arbitrary and excessive. Credit unions are protected for amounts greater than their investment in a CUSO because in fact the legal structure precludes excessive liability. Accordingly, the most they can "lose" is 100% of the investment, and the 250% allocation is illogical. Equally importantly, why would all CUSOs be treated the same, with no regard to financial condition, actual liability, etc.? CUSOs with cash positions that exceed the amount of invested capital certainly represent a different risk of loss than do those without adequate resources. And if it is true that the risk weighting will be based on the appreciated value versus invested value, then your intentions are truly punitive to credit unions who own successful CUSOs. I urge you to reconsider the arbitrary and excessive risk assignment placed on CUSOs.

The variable rating applied to business loans has a punitive effect on successful credit unions and a discouraging impact on new or young business lending program decisions. Growth and economic success in business lending are very difficult to achieve and require sincere commitment and dedication. Applying an increasingly punitive weighting to those with higher levels of success, irrespective of the actual quality of their capabilities or portfolios, dampens the attractiveness of resource investment which creates more risk and limits services to members. Last week I visited a nearly half billion dollar credit union CEO. The credit union has two staff members dedicated to business lending and a relatively small portfolio. When I asked what the CEO's vision of success was with business services, he said the answer depended on the outcome of the proposed rule. If a half billion dollar credit union is second guessing the investment return on business lending, imagine the paralyzing impact on smaller institutions if the proposed rule is adopted. I urge you to reconsider this provision of the rule.

The use of bank third party investment comparisons in evaluating the risk of credit unions investing in CUSOs is a critical misjudgment. CUSOs are collaborations between credit unions, and take on the form of "investments" primarily through legal documents and financial reporting requirements. The real "investment" is not in the entity but rather in a cooperative partnership that helps credit unions share cost, share risk and thereby provide enhanced service to members and communities. The value of the investment will never be adequately or necessarily accurately reflected on the CUSO's financial statements in a truly independent way and therefore serves as no meaningful benchmark of risk.

It is disturbing to me to see the recurring pattern of concern being shown by the NCUA relative to CUSOs. The collaborative spirit that the CUSO structure enables is one of the most unique aspects of credit union competitiveness and serves to reduce systemic risk in immeasurable ways. Regulations which leverage what makes credit unions unique, safe and competitive should be top of agenda for NCUA.

Sincerely,

William P. Beardsley
President

cc. Deborah Matz, Chairman
Michael Fryzel, Board Member
Richard Metsger, Board Member