ST. HELENS COMMUNITY
FEDERAL CREDIT UNION

May 8, 2014

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

RE: Proposal to Implement Risk Based Capital, RIN: 3133-AD77

Dear Mr. Poliquin:

This letter represents the views of St. Helens Community Federal Credit Union concerning the National Credit Union Administration's proposed rule: Prompt Corrective Action – Risk Based Capital. St. Helens Community Federal Credit Union is a 177 million dollar credit union located in St. Helens, Oregon. We are a community based credit union established in 1938 with over 15,000 members and 40,000 potential members. Our credit union maintains a strong loan to share ratio, historically near or above 90%, meeting the financial needs of the communities we serve.

**Summary of SHCFCU's Views**

St. Helens Community Federal Credit Union understands the need to maintain sufficient capital to support the risk that is contained in its balance sheet. Our credit union has a board mandated policy of targeting a net worth ratio range between 9 and 10 percent. In fact, our credit union, as well as most credit unions, recently went through a test of our capital during the 2007-2009 financial crises. SHCFCU was able to sustain a well-capitalized position during that time period. While we did experience some losses and requirement to contribute to the Share Insurance Fund as well as contributing to the Corporate Stabilization Fund during this time, our credit union was able to withstand these external situations proving that our net worth ratio target is and was adequate to withstand extreme economic pressure.

**Serious Concerns with NCUA's Adoption of this Risk Based Capital Regulation**

It appears this regulation is being modeled after the bank regulations and therefore contains some serious problems as it relates to credit unions. Credit unions do not have the ability to obtain secondary capital unless they obtain a low-income designation. If NCUA is going to require tighter capital restrictions, it would only be fair to implement this requirement after receiving the statutory ability for all credit unions to obtain supplemental capital. Banks have the ability to obtain additional capital while credit unions can only build capital through their earnings. We believe this increased requirement for capital will stagnate credit union growth and give the banks a clear advantage. Hindering credit union growth ultimately harms the consumer who desires affordable financial services.

Under NCUA's current net worth requirements and their due diligence to examine credit unions based on risk, NCUA currently has the appropriate tools and authority to mitigate potential losses to the insurance fund. NCUA justifies that this new rule is necessary as a result of a few credit union failures during the 2007-2009 recession. However, NCUA has already increased their level of supervisory action to prevent or mitigate these types of losses in the future.

In addition, the amount of losses credit unions have incurred is substantially less than that of the banking industry. FDIC and NCUA insure similar numbers of institutions, however, the dollar losses of one mid-size bank failure exceeds the losses of the entire credit union industry since 2008. The current proposal does not take this into account and we believe this fact needs to be taken into consideration when finalizing the risk-based capital rule.

**New Risk Based Capital Calculation is Flawed**

There are numerous problems with the calculation that appear to be inconsistent or excessive. In the following section we highlight these for your consideration:

1. In the numerator portion of the calculation, there is a cap on the Allowance for Loan and Lease Loss account of 125% of risk assets. We propose there be no cap on the ALLL account as the purpose of this account is to mitigate potential asset risk. Since this is the true nature of the account, it seems credit unions should be allowed full credit for the dollars in their ALLL accounts.

2. In the denominator portion of the calculation, there is an inconsistency between the credit union world and the banking world. The further out on the investment curve a credit union invests the more capital a credit union will need to hold. This is not true in the banking world. Also, an investment with an average life of 4.5 years receives a risk rate of .75% while an investment with an average life of 5.1 years receives a risk rate twice as much at 1.5%. The difference between these two investments is not such that a 6 month maturity difference should warrant twice as much capital. It would be better to risk weight the entire portfolio based on its average life.

3. It is unclear what risk weight our deposit at the Federal Reserve Bank requires. We believe it should be zero and would like this to be clarified in the final version.

4. Mortgage loans are being risk rated based solely on concentration risk and does not take into consideration interest rate risk. A 30 year fixed rate mortgage receives the same risk rate as a 1-year ARM, each having a completely different interest rate risk. It is not logical to risk weight these two products the same.

5. MBLs are being risk rated based solely on concentration risk and does not take into consideration interest rate risk. A MBL with a 10-year balloon receives the same risk rate as a MBL with a 1-year balloon, each having a completely different interest rate risk. It is not logical to risk weight these two products the same.

6. There is a large inconsistency concerning booked Real Estate loans and purchased MBS. Each holds a different risk weighting and investments in MBS's holds a higher risk rating than booked real estate loans. This does not appear to be consistent with their inherent risk. Securities backed by Freddie Mac or Fannie Mae have yet to realize a loss and their government backing was tested and proven in the recent recession. We believe that MBS should be risk weighted similarly to US Treasuries as they are backed by the full faith of the US Government.

7. It is unclear what risk weight our deposit at the FHLB requires. We believe it should be clearly defined in the final version.

We understand that the current 5300 Call Report does not collect the necessary information to adequately risk weight some of our above suggestions, however, we support any and all changes to the 5300 Call Report to better determine a credit union's risk based capital position.

**How Risk Based Capital Calculation will affect SHCFCU**

As of December 31, 2013, our credit union had a net worth ratio of 8.47% and a risk based capital ratio of 9.61%, which would move our credit union from being Well-Capitalized into the category of Adequately-Capitalized. For our credit union, we have a large ALLL balance to protect the risk in our lending portfolio, most of which supports our Member Business Loans. Because we have more than the allowed 1.25% of risk assets in our ALLL account, we are not able to count that portion towards our capital in the numerator portion of the risk based capital calculation. If we would be allowed to count all our funds in our ALLL account towards the risk based capital calculation, we would have a risk based capital ratio of 10.81% and therefore be considered Well-Capitalized. This seems to make sense since the balance in the ALLL account is dedicated to protecting the risks within the loan portfolio.

We find the restrictions that this proposed methodology brings would limit the amount of growth credit unions and our credit union specifically would be able to support. Growth is a key factor to survival and if the risk based capital calculation and methodology is implemented as currently written, it would have a severe effect on our credit union, our members and our local economy. The only way we can grow our capital is through our earnings. Therefore, to maintain the higher capital requirements this proposal brings it would change the way our credit union conducts its business. We would need to adjust our pricing strategy, lowering deposit rates, increasing loan rates and adjusting fees. This would have a profound negative impact on our membership and our community. Further, we would have to tighten or discontinue some of our loan programs; the ones that require higher capital reserves, continuing to place greater pressure on earnings and again, adversely affecting our local economy.

Finally, regardless whether we are allowed to count our entire ALLL balance in the risk based capital calculation; we find its current methodology to be flawed as we pointed out in several examples above. We fully understand the importance and necessity to maintain healthy capital and we believe we have proven over the years we have done just that. As mentioned earlier, we believe the 2007 – 2009 severe economic challenges were excellent tests of our credit union's capital adequacy and its ability to withstand the worst financial conditions in 70 years.

We appreciate the opportunity to express our thoughts and concerns regarding the proposed Risk Based Capital, RIN: 3133-AD77, regulation.

Sincerely,

Brooke Van Vleet
President/CEO

Randy Goshow
Chief Financial Officer

cc: Congresswoman Suzanne Bonamici
Senator Ron Wyden
Senator Jeff Merkley



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