From:	Brett Blackburn
To:	_Regulatory Comments
Subject:	Prompt Corrective Action: Risk-Based Capital
Date:	Tuesday, May 13, 2014 9:35:26 PM

Gerard Poliquin,

Thank you for the opportunity to comment on the proposed risk-based capital rule. It's clearly an important rule, and one that should be considered carefully before implementation. I'm writing on behalf of Hercules Credit Union, which serves Salt Lake County, Utah. We have 4,700 members, and $58 million in assets.

I support the idea of a more sophisticated risk-based capital framework. It makes sense that more risk should require more capital, however I feel that the proposal will unnecessarily discourage growth of credit unions and decrease the credit union benefit to members.

While the law requires NCUA to have a risk-based rule comparable to other types of financial institutions, I do not feel the need for the rule has been justified in its current form. The fact that the proposal so uniformly reduces capital levels across the board of affected credit unions demonstrates that it's too stringent. If the weights were set properly, most credit unions would not see a reduction in their buffer to stay over the well-capitalized requirement.

The reasoning for that assertion is simple: most credit unions maintain their capital at a comfortable level above the requirement to be well-capitalized. Yet the proposal would reduce that buffer on the risk-based capital calculation for many credit unions. That buffer is very important to credit unions, and is something that examiners also watch.

Yet, a majority of credit unions weathered the recent recession very well. Most stayed in the well-capitalized category. By all accounts, their capital was enough for their risk. If the capital were adequate at a certain level before, why would it suddenly become less adequate? Quite simply, it wouldn't. For all practical purposes, under the proposed rule, capital is not any less adequate even though nothing has changed except for the rule. This is a clear signal that the rule is not needed in its current form because it is too stringent.

The rule affects many more credit unions than those that are "complex." Complex does not mean "a certain size" (as the rule proposes) but really should address the types of activities that credit unions are involved in. The more types of activities a credit union is involved in, the more complex it becomes. Therefore, the rule should only apply to credit unions with balance sheets that exhibit unusual complexity and that include difficult-to-understand assets or liabilities, such as investing in derivatives.

To address concentration, interest rate, and liquidity risk in their portfolios, credit unions already utilize ALM strategies. Many of these programs are required by the NCUA, and examined and scrutinized at credit unions on an individual basis. I believe that these requirements are more than adequate at addressing the risk.

All of the existing rules and regulations have led credit unions to establish their capital at

certain levels, which usually include a buffer.
The overly-stringent requirements under the proposed rule really boil down to the weights of different types of assets—especially member business loans, CUSO investments, perpetual capital at corporate credit unions, and mid-ranged investments.

- While it's true that member business loans have the potential for larger losses than other types of loans, credit unions are consistently safer lenders than other financial institutions when it comes to member business loans. Yet, the proposed rule requires more capital than at other financial institutions.
- The weights of CUSO are also too high, as many CUSOs serve excellent purposes without ever returning funds to the credit union. Rather, many CUSOs save credit unions significant money without ever creating significant risk. Some CUSOs certainly do pose risks, but not all CUSOs are the same, and the rule would affect my willingness to enter into low-risk, productive, profit-enhancing or expense-reducing CUSOs alone or with other credit unions.
- Corporate credit union capital is also weighted too heavily. Especially since the recent corporate credit union rule went into effect, that perpetual capital is much less risky than it is weighted.
- It's a stretch of reason to weigh investments ranging from 5 to 10 years at a higher weight than first mortgages that may have the same term. They may bear the same interest rate risk, yet less risk because there is no credit risk. In reality, many of the weights may lead our credit union to not seek out the higher-income-producing assets—for while they do produce more income, they may not produce enough to offset the higher capital requirements—which could have a negative effect on our earnings and on our balance sheet.

Finally, the proposed risk-based rule does not seem to take into account the difficulty that credit unions have in increasing capital. It's true that many credit unions can utilize supplemental capital, but most—including mine—cannot obtain supplementary capital. The rule should include provisions for all credit unions to access supplemental capital.
In summary, the proposed rule will discourage growth. Credit unions already have ALM strategies to address concentration risk, interest risk and liquidity risk. Adding an additional layer of oversight would only complicate and impede progress. Our credit union needs to grow to survive or be relevant to our members. We need to look at adding additional products and services to meet our members needs. But this rule will discourage us on all fronts, and simply create barriers to serving our community.
My recommendations:

- The recent financial disaster showed that most credit union have adequate capital. The rule should reflect that, without reducing the buffer.
- The definition of complex should be shored up to include only credit unions with a

broad mix of assets and liabilities, especially investments that are more complex.

- Weights should be re-examined to reflect their risk. Also, the data supporting those weights should be made public.

Please consider implementing changes based on the suggestions that I have made. Thank you.

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