Illinois Educators
CREDIT UNION

Building Bright Futures for Educators since 1938

May 13, 2014

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

Re: Proposed Rule: PCA—Risk-Based Capital RIN 3133-AD77

Dear Mr. Poliquin:

We appreciate the opportunity to comment on the proposed rule regarding risk-based capital. While we support the intent of the rule, which would match risks to the NCUSIF to capital requirements, **we think our credit union is an example of flaws within the weighting model of the rule.**

As of March 31, 2014, Illinois Educators Credit Union had $50 million in assets and 7,194 members. Additional information regarding IECU:

- We do not make business loans
- We do not have indirect lending or participation lending
- We do not book 1st mortgages
- We have a very conservative investment policy
- We ended 2013 with net worth of 9.23%
- We ended 2013 with a delinquency rate of .58% and a net charge-off rate of .25%
- We ended 2013 with return on assets of .40%

Risk-Based Capital Calculation

Using the proposed weighting model, we calculated our risk-based capital ratio to be **10.71%** as of December 31, 2013. Therefore, we would only be 22 basis points from being considered "adequately capitalized" instead of "well capitalized." This compares to our net worth, which was 223 basis points from being considered "adequately capitalized." We consider ourselves to be a conservative and successful credit union. If this is a correct statement, we would, therefore, be of low risk to the NCUSIF. **This would give validation to our premise that the weighting model of the rule has flaws in it.**

Negative Effect Weighting Model Would Have on IECU

The Board of Directors and Management of IECU would be very uncomfortable with a cushion of only 22 basis points on the risk-based capital ratio. Management would immediately go into a capital restoration mode that would result in negative effects upon the IECU membership and staff.

As of December 31, 2008 our net worth was 9.39%. Primarily due to the failure of Members United CFCU and the NCUA assessments following that failure, our net worth dropped to 7.28% as of April 30, 2010. Management went into a capital restoration mode which resulted in the closure of one of our three branches, a reduction in staff, and reduced dividends. Management also froze membership growth in order to restrict asset growth, resulting in a reduction of membership of 8.1% to date.

The major problem with the scenario regarding the risk-based capital ratio is that it is calculated using a flawed weighting model, and yet would have the same negative effect on IECU as actual losses due to the collapse of the five Corporate FCUs.

Should Size Be Taken Into Consideration?

As a $50 million credit union, are we not a much smaller risk than a $1 billion credit union? We are recommending that, in addition to identifying high-risk activities that some credit unions are involved in, the NCUA also take into consideration the size of the credit union in determining the potential risk to the NCUSIF.

Conclusion

We think the concept of risk-based capital is excellent. However, we believe that the proposed weighting model is flawed. **We think the proposed weighting model would have a significant negative effect on many of the small and mid-sized credit unions still in operation.**

When I joined our credit union in 1970 as a first-year teacher, there were 23,800 credit unions in the United States. Today we are getting close to only 6,000. That is a sad decrease of approximately 75%. As you aware, we are talking about the loss of the small and mid-sized credit unions that have been forced to merge or close their doors.

Small and mid-sized credits unions find it extremely difficult to compete against the large credit unions, especially those that hold community charters. The large community-chartered credit unions are taking the loans from the small and mid-sized credit unions at the auto dealerships through indirect lending. They also have a competitive advantage regarding operating expenses to average assets.

I have been in my position for 38 years and I am considered to be an educated person, with a Bachelors degree in Business Education and a Masters in Business. I am personally convinced that if the flaws in the weighting model for the risk-based capital ratio are not fixed, it is going to further contribute to the decline of small and mid-sized credit unions.

I would like offer our credit union to be a beta site for you to use to look at different weighting scenarios. Thank you for your consideration.

Sincerely,

Gene Taylor

Gene Taylor, President/CEO

cc: Senator Dick Durbin
Senator Mark Kirk
IECU Board of Directors