May 14, 2014

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

Dear sir,

In June of 1999, North Coast Credit Union, which serves Whatcom and Skagit Counties in Washington State, implemented an in-house indirect vehicle lending program. At that point in time, the Credit Union had total assets of $94.5 million and a net worth ratio of 10.47%. Fueled by the objective of becoming the largest vehicle lender in northwest Washington State, within 12 months, the Credit Union had grown to $128 million in assets. Then, things went terribly wrong.

As the poorly conceived and even more poorly executed indirect lending strategy played out, the losses became staggering. In 2000, North Coast recorded one of the two greatest percentage declines in net worth ratio in the country. By June of 2001, when I was hired as President/CEO, the Credit Union's net worth ratio had fallen to 7.19%. With indirect vehicle loans comprising as much as 60% of the Credit Union's assets, over the next four years, net charge-offs totaled $8.6 million and, by the time the indirect program was suspended in 2007, those losses had grown to nearly $9.7 million – nearly 96% of what the Credit Union's total net worth had been at the inception of the program.

In 2007, we were successful in executing a critical change in the direction of the Credit Union, which, in hindsight likely saved it. We restructured our entire lending operation to turn-off our indirect lending program and focus our resources on building our portfolio of residential and commercial real estate loans. Both the yields and the drastically improved loss experience on these new portfolios positioned North Coast very well for the coming economic storm.

During the span from 2000 through 2007, North Coast's net charge-off ratio averaged 1.28%. From 2008 through 2013, with our concentration on real estate-secured loans, that ratio averaged 0.53%. Even in the face of the catastrophic charges to net worth brought on by the collapse of WesCorp and the replenishment of the NCUSIF, with this improved performance of our reconstructed balance sheet backed by residential and commercial real estate, we were successful in growing our net worth ratio to 8.38% by the end of 2013. While that is still not an excess of capital by industry standards, the fact that we were able to accomplish that while growing assets from $115 million at the end of 2007 to $175 million by the end of 2013 speaks to the success of our decision to get out of indirect vehicle lending and into a predominantly real estate secured portfolio.

As I have noted to our Board of Directors and our examiners on repeated occasions, had we gone into the "Great Recession" with the same indirect loan portfolio concentration that we had 18 to 24 months prior, the Credit Union, in its weakened net worth position, would not have survived the downturn and would most likely have been one more mess for our state and federal regulators to clean up.

It is, therefore, a cause of great concern for our Credit Union that we see the inherent flaws in the risk weighting scheme that the NCUA has adopted for its proposed rules on risk-based capital. As our real-life experience has so clearly demonstrated, to assume that shorter-term assets, such as vehicle loans, are of lower risk than longer-term assets, such as residential and commercial real estate loans, demonstrates an extremely myopic view of the nature of balance sheet risk. This disparity reflects a perception that interest rate risk is the only factor that matters, whereas our own experience has demonstrated our ability to manage the interest rate risk on what the proposal deems the riskier loans and thrive due to the substantially higher credit quality and performance of those loans.

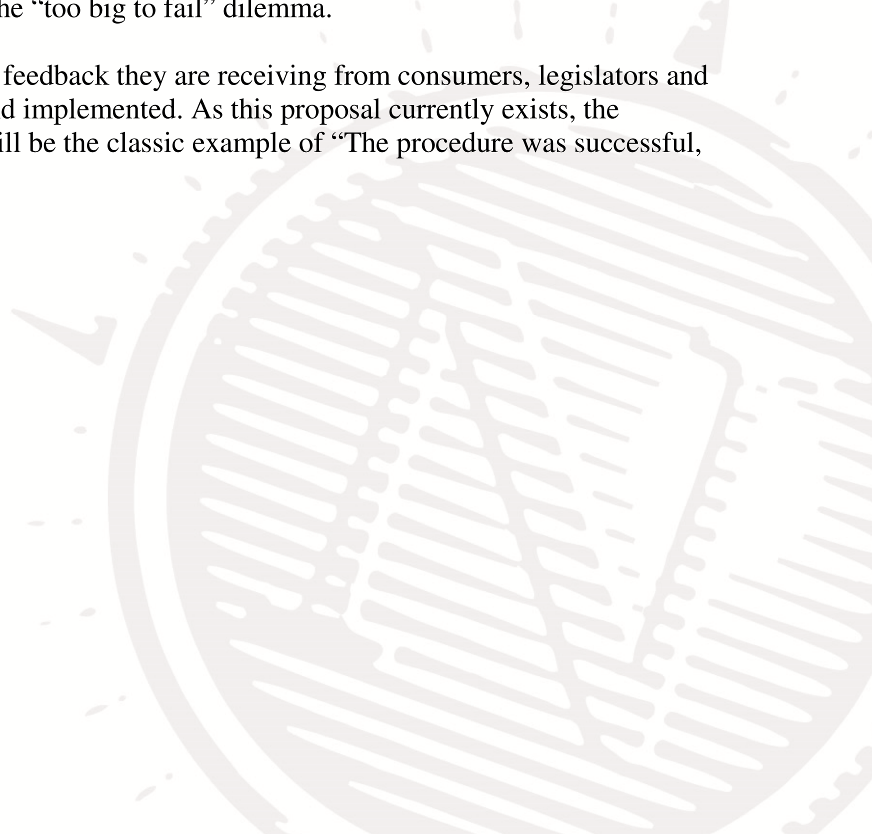
While I fully endorse the need for a risk-based capital system for credit unions, the current weighting system would virtually preclude the strategies we followed to save this credit union. With a critical need to reduce loan losses and move into more profitable lines of business, had we been forced into the more restrictive and inflexible business model that the proposed rules will impose upon all credit unions, we could not have produced the financial results that saved the organization from liquidation.

By forcing all credit unions into the already crowded marketplace for consumer loans and other assets that the authors of the proposal consider to be less risky, the effect will be to further limit our ability to differentiate ourselves in the marketplace, as well as to increase the competition for loan products that are already so commoditized as to be unprofitable in many markets, further decreasing the earnings potential from those products.

As I told one of our members of Congress a while back, as the burdens of regulatory compliance become increasingly harmful to credit unions and the members we serve, an unfortunate irony evolves. In taking measures to prevent credit unions from making the same mistakes that for-profit banks made a few years ago, legislators and regulators are making it increasingly difficult, if not impossible, for well-run, member-focused financial cooperatives to compete and, therefore, to survive. And in so doing, they destroy the consumers' best alternative to the very thing that everyone fears most – larger and larger banks. Those making these rules destroy the strongest allies they could have in combating the "too big to fail" dilemma.

I strongly recommend that the NCUA listen to the feedback they are receiving from consumers, legislators and credit unions in how these rules are constructed and implemented. As this proposal currently exists, the unintended consequences will be devastating. It will be the classic example of "The procedure was successful, but the patient died."

Respectfully,



Terry Belcoe
President/CEO
North Coast Credit Union

Cc: Congressman Rick Larsen
Senator Patty Murray
Senator Maria Cantwell