



Lifestyle Banking Solutions
for the Health Care Community

May 16, 2014

Gerald Poliquin

Secretary of the Board

National Credit Union Administration

1775 Duke Street

Alexandria, VA 22314

VIA Electronic Delivery: regcomments@ncua.gov

RE: Prompt Corrective Action- Risk-Based Capital; RIN 3133-AD77

Dear Mr. Poliquin:

Thank you for the opportunity to provide commentary regarding the National Credit Union Administration's (NCUA) recently issued proposed Prompt Corrective Action rule to establish risk based capital requirements for federally-insured credit unions. North Memorial Federal Credit Union is a \$36 million credit union serving over 4,200 members who have an employee or associational relationship with North Memorial Hospital or other eligible healthcare clinics primarily within the Twin Cities and surrounding communities. North Memorial Federal Credit Union is generally supportive of a system which ensures the safety and soundness of individual credit unions as well as the entire credit union system; however, under its current design, does not support several guidelines provided in the proposed rule.

As a small credit union currently below the defined \$50 million threshold for "complex" credit unions, we are frequently overwhelmed by the burden of ever-changing regulations. We annually assess our future as an organization based on the "alive" or "thrive" principle and are cognizant of the merger environment and the dwindling numbers of small credit unions. This proposal will likely cause our credit union to reevaluate growth plans and may restrict our capacity to fund enhanced product research and development to provide our members with a more robust member experience comparable to the local community banks and national banks who in the state of Minnesota hold over three times the assets of credit unions and 94% nationally. It is difficult enough to forecast and plan for growth on a strategic and regulatory level. This proposal will add another level of assessment to our services and investments as we position ourselves for growth. While we may not reach the \$50 million threshold within the proposed 18-month implementation timeline, we would like to voice here our disapproval as it is insufficient time for credit unions to evaluate the impact on their institution and make necessary strategic adjustments.

North Memorial Federal Credit Union encourages NCUA to analyze further and reconsider the proposed risk weightings as components of both the denominator and numerator are unbalanced, restrictive and do not take into consideration the individual credit union's ability to assess their own risk, engage in effective policy making and provide adequate capital buffers to mitigate those risks. From the denominator perspective, for an industry who has championed the concept of standing for "the little guy" to have weightings more restrictive than Basel III sends a contradictory message:

- Residential mortgages guaranteed by FHA or VA is 20% for credit unions, 0% under Basel III
- Non-delinquent first mortgage residential loans start at 50% and increase based on concentration to 100%, Basel III is a straight-lined 50%
- Other real estate loans similarly are 100% with an increase to 150% while Basel III is a flat 100%.

In the same vein, for credit unions to labor so vigorously and intensely to raise the Member Business Lending cap only to be subject to a risk weighting of 200% should a credit union make the sound business decision to engage in such activity is a classic illustration of one step-forward and two steps back. Furthermore, for a credit union that supports and invests in innovation within the industry and growth of ideas and solutions from within through CUSO investment, to be assessed a 250% risk weighting is excessive and carries the unintended consequence of credit unions potentially fleeing these types of investments. NCUA is bordering on setting a tone which suggests credit unions should not be innovators but rely on banks to engage in these types of lending and investments. On the numerator side, the failure to include the NCUSIF deposit, which is an asset under GAAP, does not take into account the significant value and importance of federal deposit insurance to consumers. Additionally, to limit the inclusion of the Allowance for Loan and Lease Losses (ALLL) to 1.25% of risk assets is arbitrary and penalizes credit unions who have analyzed the risk in their own portfolios and funded accordingly.

Finally, North Memorial Federal Credit Union is opposed to the proposed rule's allowance for imposing additional capital requirements on a case-by-case basis as it is vague, unpredictable and crosses the fine line from oversight into an environment of managing and perhaps directing a credit union's vision, direction and mission. If NCUA has carefully and methodically crafted a rule which makes sense and addresses risk from all angles mentioned in the proposal- credit risk, interest rate risk, concentration risk, liquidity risk, operational risk and market risk- then there should be no need for NCUA to require further authority to impose higher capital requirements. Would a risk-averse credit union be rewarded with a RBC requirement lower than the calculated ratio? No- and to suggest as much is near comical; therefore, the reverse should not be true. As a federally-chartered institution, we generally accept NCUA's broad authority under "safety and soundness" and view each exam as a learning opportunity and a chance to engage in open dialogue through the exam process. If there are true risks or threats to the fund, NCUA should be addressing such issues under the authority of safety and soundness, Exam findings and the utilization of the Document of Resolution.

Risk Based Capital is an amiable concept when designed to address all risk scenarios, account for potential losses and provide parity to the banks we daily compete with. As it is currently formulated, the rule is counter-productive in providing credit unions a clear path for success and health to their own balance sheets as well as the NCUSIF. It is the underserved consumers our model is designed to serve who will ultimately be hurt the most. North Memorial Federal Credit Union strongly encourages NCUA to evaluate its goals in creating a Risk Based Capital system and asks you to reconsider the unintended consequences of implementing the rule in its current form.

Sincerely,

Dana Garrett



President/CEO