May 6, 2014

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

Sent via E-mail to: regcomments@ncua.gov

Re: Proposed Rule: PCA – Risk-Based Capital

Dear Mr. Poliquin:

I am writing to voice our strong opposition to NCUA's proposal on PCA – Risk-Based Capital. I have worked for Members First Credit Union for nearly 30 years with the last 25 as the President/CEO. Before that time, I was a CPA and an auditor and can certainly understand the need for credit unions to operate in a safe and sound manner. I certainly agree that strong capital is essential to this goal as well as limiting risk. For this reason, we regularly strive for a strong return on assets and currently have over a 17% capital to assets ratio. However, for a credit union to be successful and compete in the financial marketplace you can't simply avoid risk but rather need to manage it. I agree with the intent of the policy to require different levels of capital based on different levels of risk but feel the proposal creates more problems than it tries to solve. There are a number of aspects of the proposal I do not agree with but will limit this response to only a few as follows:

1) Definition of a complex credit union – size alone does not determine the complexity of a credit union. Rather, NCUA should provide a more appropriate guideline that looks at the complexity of the operations of a credit union AND its size. Let's be real, small credit unions of even $100M can have a difficult time trying to compete in the marketplace. Additionally, what risk does a small credit union pose to the insurance fund? It seems more appropriate that if there was a change (and I don't propose one), it should only apply to the largest of credit unions that can have an effect on the insurance fund AND those that have chosen to take on more risky activities.
2) Regulatory Burden – this proposal is another example of unnecessary regulatory burdens impeding the ability of credit unions to serve our members and it WILL affect the vast majority of credit unions. As noted earlier, we have over a 17% capital to asset ratio and now have to comply with this policy? Why can't a proposal be made that provides *regulatory relief* to credit unions such as us that have a proven track record of high capital and a strong return on assets. Why are we being punished with the burden of complying with this act when there is no precedent that we pose any risk to the insurance fund? If certain credit unions are operating in a fashion that is deemed risky, then provide guidelines to

limit their activities or risk but don't just have a blanket regulatory burden as proposed.

3) <u>Extend Compliance Date</u> – it is quite clear this proposal will change the way credit unions operate. Why do banks have until 2019 and credit unions only 18 months to comply? We should simply be given the same time frame.
4) <u>Treatment of all mortgages the same</u> – why are all mortgages treated the same. You should take into consideration the loss history of the portfolio as well as the term of the mortgage. We have never had a loss on a mortgage and we limit our mortgages to 15 year terms. Why should our portfolio be given the same amount of risk weight as another credit union that has a great deal of loan losses or loans that have much greater interest rate risk?
5) <u>Consumer loans all have the same risk weight</u> – the proposal acknowledges no difference in risk between the different types of consumer loans. Thus, no difference in secured vs. unsecured or direct vs. indirect (auto loans). They don't take into consideration the term of the loan or the loss history that has been experienced. Maybe there is an attempt to simplify here but it unfairly treats all portfolios the same.
6) <u>Examiner discretion</u> – our biggest concern in the entire proposal is the discretion of the examiner to increase the risk based capital requirement. Wow, that is just crazy! That is like allowing a police officer to say that they can change the speed limit based on the race or sex of the driver, the type of car they are driving, or for whatever reason they wish AFTER the car passes through the speed zone. You are placing way too much power in the hands of the examiner and credit unions will effectively have different limits based on which examiner they have. Simply put, examiners have unlimited power and can treat credit unions differently as they chose.

In conclusion, I can understand the concern to limit risk at credit unions but this proposal is not the right way to do it. We did not like paying our share to bail out the failed corporate credit unions but were glad to do it. However, please do not overreact by applying regulations that are not needed to the majority of credit unions that are operating in a safe and sound manner.

Sincerely,

Greg Fair
President/CEO
Members First Credit Union