DuPont Community
CREDIT UNION

May 16, 2014

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

RE: Comments on Proposed Rule: PCA – Risk-Based Capital

Dear Mr. Poliquin,

I appreciate the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action—Risk-Based Capital. I am writing on behalf of DuPont Community Credit Union, which serves the cities and counties in Virginia of Augusta, Bath, Buena Vista, Harrisonburg, Highland, Lexington, Rockingham, Rockbridge, Shenandoah, Staunton and Waynesboro. We have over 67,000 members and $928,000,000 in assets.

It is commendable that you are looking to find a way to better assess the risk embedded on credit unions' balance sheets. I appreciate the importance of supervising financial institutions for concentration risk and I recognize your challenge to train and retain examination staff that has the ability to understand the unique position of each credit union's financial structure and how it relates to the particulars of each credit union's market environment. However, I believe that implementing a regulation to address the examination challenge of measuring risk is not an approach that will protect the industry from poor management. It is overreaching and punitive to the proven, thoughtful and professional management at the vast majority of US credit unions. The dangerously broad risk weightings will not identify the policy differences in loan underwriting and product structures. By simply categorizing assets based on years to maturity, only interest-rate risk (IRR) is being captured, and not very accurately. No consideration is being given for whether an asset has a fixed-rate versus variable-rate. It also does not take into consideration the credit-risk differences. Even more, no credit is given to the funding side of the balance sheet and the benefits of matching-off the IRR with properly aligned funding structures/terms. The risk weightings are simplistic, general and do not take into account the nuances of particular portfolios. For example, some CUSOs do not pose as much risk as other CUSOs. Some real estate loan portfolios are not as risky as others based on policies, loan-to-value, and other qualitative terms. There are many factors that are not being taken into account when accessing the risk of a credit union using a "one size fits all" calculation.

DuPont Community CU's current capital ratio of 10.04% exceeds the well capitalized threshold (net worth above 7%) by 304 basis points ($27,111,637), 43% above the minimum and a clear indication of a conservative approach to safety and soundness considerations. As a whole, the credit union industry's

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average capital ratio is 10.78% again another indication of the industry's consistently conservative approach to managing financial safety and soundness realities. If the proposed calculation methodology were in effect today, DuPont Community CU would remain well-capitalized, but our capital cushion, the surplus financial safety net, would be materially reduced. DuPont Community CU would see its cushion over the well-capitalized threshold shrink by **70%** ($19,047,878 or 214 basis points) leaving a remaining cushion of just 91 basis points on total assets. As a point of reference – DuPont Community CU earned 72 basis points ROA in 2013.

So who are you trying to protect? It's not the tax payer because not a dime of expense borne by them during the worst financial crisis in 80 years can be attributed to credit union losses. You can use your own data to show that the credit union industry did not cause the problem nor did our industry cause systemic losses in the general economy. During the financial crisis, the prompt corrective action standards allowed the National Credit Union Share Insurance Fund (NCUSIF) to perform well and remain decently capitalized with material contributions made by credit unions, while other funds, such as the FDIC, became technically insolvent. One could argue that the capital that was lost in the credit union industry (most of which can be attributed to the Corporate debacle and not natural person credit unions) ultimately impacted our members through lower rates on deposits or increased fees. <u>These past losses however will pale to the loss of value that members will suffer if this new regulation were to go into effect.</u> I am concerned that this rule could restrict my credit union's ability to lend and serve its members. We would be forced to reduce dividend rates, curtail accepting deposits, discontinue offering real estate loans, restructure the balance sheet to sell off long-term loans and investments, and increase fees to members to build up capital. Since credit unions have limited ability to raise capital other than through retained earnings, the proposed approach seems excessively burdensome and would hit credit unions in rural areas and those serving low-income populations particularly hard. The proposal will harm my community so please consider the economic impact and consequences of reduced liquidity and financing for families and small businesses.

As we continue to learn, the financial industry is embedded with growing complexities that include strengths and weaknesses that call for advanced understanding of both quantitative and qualitative aspects on both a macro and institutional level. A regulation should not be implemented as a replacement for an in-depth analysis by a trained professional to measure risk from a multitude of perspectives. This proposal needs to be taken off the table as a regulation and instead be modified and added to an examiner's toolbox as a beginning to understand the nuance of each credit union's financial structure.

Thank you for taking my comments into consideration.

Respectfully,

Gerald B. Hershey
President/CEO
DuPont Community Credit Union