CENTRAL CITY
CREDIT UNION
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May 16, 2014

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

Re: Comment to Proposed Prompt Corrective Action: Risk Based Capital Rule
RIN 3133-AD77

Dear Mr. Poliquin:

On behalf of Central City Credit Union I would like to thank you for the opportunity to comment on the PCA -Risk Based Capital Rule that is being proposed by NCUA. We are a community credit union, located in the state of Wisconsin, that serves Adams, Clark, Marathon, Portage, Shawano, Waupaca, Waushara and Wood Counties along with several townships and select employee groups in the area. We have roughly 23,500 members and assets at about $210 million.

Under the current Risk Based Net Worth calculation, Central City Credit Union has a buffer of roughly $5.5 million between our current capital levels and the capital required to maintain a status of well capitalized. Under the proposed rule, that buffer drops almost $2 million to $3.6 million. This drop would have a significant impact on the strategic direction of the Credit Union and our ability to serve our members.

Central City Credit Union has spent many years developing a niche in the real estate lending market and has built a very strong portfolio of a variety of real estate loan products that have provided members at all income levels the ability to achieve their dreams of homeownership. This rule would set higher risk weightings thereby imposing higher capital requirements on our Credit Union because of our large concentration of real estate loans. Coupled with our concentration of member business loans and longer term assets this would ultimately cause a restructuring of our balance sheet. Forcing us to adjust our products and services to avoid increased capital requirements will mean significantly decrease our ability to address member needs, especially with small business loans and residential mortgages.

This rule is said to be modelled after the Basel III capital rules for community banks. There are a number of areas that the proposed rule is much stricter with higher risk ratings than Basel III. Residential mortgages over 35% of total assets under this proposal would be risk weighted at 100% while Basel III has all residential mortgages weighted at 50%. Other real estate loans over 25% and 35% would be weighted at 75% and 100% respectively while under Basel III all are weighted at 100%. All investments

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under this proposal are weighted based strictly on term without regard for type of investment or issuer effectively ignoring credit risk. This inhibits our ability to manage our balance sheet effectively.

I would also take the position that this new rule in the proposed state is unnecessary given the fact that the credit union system fared much better that the large or small community banks during the most recent economic downturn. Our credit union system as a whole withstood the worst financial crisis in over 80 years with no government assistance. It is harmful to credit unions as a whole in that we have no means of raising capital except from retained earnings. Ultimately our only option is to raise capital by penalizing our members with higher fees, higher loan rates, and lower deposit rates.

The ability of NCUA to arbitrarily raise the capital requirements of credit unions on a case by case basis seems subjective and unfair. Whatever considerations would go into that capital determination should be documented in the rule so at least credit unions can plan for what will be expected of them. Basing capital requirements on examiner's discretion provides for far too much uncertainty for credit unions. At a minimum their needs to be a formal mechanism for appeal of this additional requirement that is fair and consistent.

Certainly the implementation timeline needs to be extended to give credit unions ample time to comply. Many credit unions will need to restructure their current balance sheet to remain well capitalized. Banks were given much more time to comply with Basel III. The current regulatory burden for credit unions is already overwhelming and this would cause additional stress for credit unions. Ideally credit unions should be given a minimum of three years and have some type of phase in period whereby credit unions can make the necessary changes to their portfolios.

Credit unions came through the recession in good order and the need for this strict rule is unclear. Furthermore NCUA has not done a good job of demonstrating why the rule in its current form is needed. It is harmful to the credit union industry as a whole since they have no means of building capital to meet the requirements except from retained earnings. Using the investment portfolio as a tool to protect the balance sheet against different rate environments is discouraged by this rule. The risk weightings are inconsistent with Basel III, they over-manage the credit union's balance sheet and over-emphasize interest rate risk. Ideally, the proposal really needs to be significantly amended and reissued for comment again, or withdrawn and represented.

Thank you for the opportunity to comment on this proposed rule and for considering our views on risk based capital requirements.

Sincerely,

Susan Foth

Susan Foth
Executive Vice President
Central City Credit Union