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May 19, 2014

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

Re: Risk Based Capital Proposal

Dear Mr. Poliquin:

Thank you for the opportunity to comment on NCUA's proposal regarding risk based capital. I am writing on behalf of West Virginia's 92 credit unions and their 386,000 members. These 92 credit unions collectively have $3.2 billion in assets.

I have a number of concerns regarding the proposal, but before addressing any specific ones, there is an overall concern with regard to the need for issuing such a broad and potentially damaging proposal. Given the remarkable manner in which credit unions have performed over the past six years through the worst financial crisis in decades, it seems both unnecessary and unwarranted to suggest additional capital is needed.

If any capital reform is justified, it is for reduced capital requirements, given the minimal amount of risk on most credit union balance sheets. Added to that is the extraordinary ability credit unions have demonstrated over the years to manage the risk that they do have. While there may be pressure for NCUA to more closely adhere to international capital standards, it is the non-profit, cooperative model that our credit unions follow. Such attempts as this capital reform proposal seem to disregard the difficulty in building capital for credit unions, especially in a period when capital levels have declined somewhat.

We have analyzed the specific impact this proposal would have on credit unions in WV. Further, we have communicated with credit unions that would be affected, using a $40 million threshold rather than a $50 million one, as established in the proposal.

We distributed information to help them become better informed and also held a conference call to discuss the specifics. A major concern voiced by the group involves the buffer that would be eliminated between the current definition of well capitalized to the new definition. This elimination would involve reduced opportunities to provide loans and other possible services, the addition or raising of fees, and the lower of dividends, all to the detriment of the membership.

Additional concerns involve the manner in which risk weights are assigned in the proposal. There appears to be a mis-weighting of certain types of instruments, especially member business loans, higher concentration of mortgage loans, and especially CUSO investments. A clearer explanation is warranted to justify such extreme weighting of these instruments.

An overriding concern is the degree to which NCUA has the arbitrary authority, on a case-by-case basis, to impose an even higher minimum risk based capital requirement than prescribed by the regulation. While there are specific situations defined when this could occur, the level of arbitrary latitude that seems to be allowed is alarming. Further, the appeals process is cumbersome and involves the office of the NCUA Ombudsman, which has proven to be an unsatisfactory path for credit unions to follow in the past.

The timeline for implementation is much too short. Should this proposal be implemented without changes, credit unions will certainly need more than 18 months to prepare to meet the new requirement imposed upon them.

While some form of capital reform could be supported, we do not support it in this proposed form. Short of striking the proposal entirely, and given the level of concern expressed by any number of groups, we encourage a re-drafting of the proposal and a re-issuance for a new comment period. By doing so, and by taking into account the multitude of comments on this issue, it will allow for a much more balanced approach to the proper capital component for credit unions.

Thank you for the opportunity to comment on this proposal.

Sincerely,

Kenneth R. Watts

Kenneth R. Watts
President