School Systems
FEDERAL CREDIT UNION

May 7, 2014

MAY19'14 PM 2:06 BOARD

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

Dear Mr. Poliquin:

As the CEO of School Systems Federal Credit Union in Troy, New York, I am writing this letter to express my deep concerns with NCUA's proposed risk-based capital regulations. NCUA's proposal would reclassify School Systems as under-capitalized and force it to either raise millions of dollars in additional capital or, more likely, reduce the size of the credit union and the offerings it provides to its members. This dramatic re-evaluation of the credit union shows how flawed the RBC proposal is.

NCUA has not justified the need for additional regulation of credit union capital. The last five years have been extremely difficult because of the Great Recession but School Systems continues to experience solid growth. It had $52 million in assets at the end of 2008 and has more than $74 million in assets today. School Systems is not unique. Many credit unions have continued to grow and meet the needs of members. NCUA points to the practices of some failed credit unions as proof that capital reform is needed but considering the severity of the economic downturn, the fact that only 102 credit unions went into conservatorship since 2008 demonstrates that credit union underwriting combined with reasonable capital requirements provides adequate protection for the system as a whole. Just because some credit unions were poorly managed doesn't mean that credit unions like School Systems should be penalized.

If the NCUA does go forward with RBC reform it has to give credit unions much longer than eighteen months before the regulations take effect. Even though banks have been subject to Basel RBC requirements for decades, they are given up to four years to fully comply with Basel III. In contrast, credit unions like mine will have to reconfigure investment portfolios; either raise capital or reduce assets; and train staff to comply with the RBC framework. Credit unions should be given at least four years to comply with any new RBC mandates.

Many of NCUA's proposed weightings are misguided attempts at managing risks that are managed best by credit unions. NCUA is particularly concerned about the length of credit union investments and would give investments between five to ten years in length ratings of 1.50 and investments in excess of ten years a 2.00 weighting. Nothing in these weightings reflects the strength of the investments, the return they bring to a credit union over other investment options (call & step-up provisions), or the amount of due diligence that goes into a credit union's investment decisions. Some of these investments out-perform loans based on a 300 basis point increase in rates. If this regulation takes effect NCUA will no longer regulate credit unions but instead manage them by dictating what type of loans and investments they should be making.

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I believe that a properly implemented RBC framework would be beneficial for the industry as a whole. Consequently, I hope NCUA listens to the concerns raised by School Systems and other credit unions and makes substantial changes before finalizing this proposal.

Sincerely,

Mark Hatfield, Ph.D.
President/CEO
School Systems FCU

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