PINNACLE
CREDIT UNION

May 20, 2014

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

Dear Mr. Poliquin:

I am writing today to comment on the proposed regulation regarding the new Risk Based Capital requirements for federally insured credit unions. While I support requirements for credit unions to be strong financially, I believe this proposal could have detrimental effects to the ability of our movement to grow. In general, I support a conservative approach to capital reform. My concern is the current proposal is overly conservative and unwarranted given the history of credit unions performance especially during the most recent economic crisis.

Pinnacle Credit Union (Charter #67638) currently has assets of $81 million and serves approximately 12,000 members. We were originally chartered to serve the City of Atlanta school system but now we serve many other select employer groups in the area.

Credit Unions are currently highly regulated and restricted. Credit Unions must maintain a 7% net worth ratio in order to be considered "well capitalized". This leverage requirement is 40% higher than the comparable requirement on community banks. Most credit unions can only raise capital through retained earnings which makes it difficult to raise capital quickly in contrast to the banks whom can raise capital by going to the market. Credit Unions exist to improve the well-being of their members – building this capital cushion will result in our members suffering.

NCUA would have the authority to impose additional capital on a case-by-case basis. There shouldn't be any further authority from the NCUA to randomly impose higher capital requirements. If the risks and weightings are appropriate then this should be the standard in which all credit unions operate. This type of flexibility in my opinion is beyond the scope and authority of the NCUA which could leave a credit union vulnerable to an examiner's subjectivity.

The purpose of capital standards and a system of prompt corrective action (PCA) it to minimize losses to the deposit insurance fund. The National Credit Union Share Insurance Fund (NCUSIF) has performed very well under the current PCA rules. Also NCUA's requirement that the NCUIF deposit be ignored in the risk based capital calculation should be reconsidered. The justification for removing the deposit is unclear yet its effect is quite significant. Further explanation is needed for this proposed change.

CUSO investments should not be discouraged by capital weightings as they are already limited to 1% of assets which is a very conservative level. I do not understand the reasoning for 250% risk weight given to all CUSO investments. CUSOs run the gamut from plain vanilla to highly complex classifying them all with the same weight does not make sense. In fact, many CUSOs reduce risk in the credit union by offering expertise. Why the harsher weightings for all CUSOs?

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NCUA is penalizing credit unions who invest in corporate credit unions by increasing the risk weights of perpetual capital. Corporate credit unions started requiring credit unions to participate in perpetual capital to satisfy the NCUA requirement of higher capital by corporate credit unions so should NCUA double dip by requiring corporate credit unions to increase capital and also penalize credit union for that requirement?

NCUA would be putting a heavy burden on some credit unions by the short implementation period of 18 months. We have all been in a recessionary environment since 2009 and the low interest rate environment has taken a toll on earnings. We all know higher interest rates are coming and will provide some relief for compressed balance sheets but the improved earnings will not happen overnight. NCUAs proposal of an 18 month implementation period would not give credit unions sufficient time to plan for the new risk based capital ratio requirements. I urge you to rethink the transition time period to at least 5-8 years. Particularly in light of the multi-year development and implementation of Basel III for banks.

Thank you for the opportunity to comment on the proposed changes to NCUA's capital standards.

Sincerely,

Diane B. McCoy

Diane B. McCoy
EVP/Interim CEO
Pinnacle Credit Union
Atlanta, Ga.