From: Martin Carter
To: _Regulatory Comments
Subject: Prompt Corrective Action Risk-Based Capital Comment Letter
Date: Tuesday, May 20, 2014 3:50:53 PM

Dear Secretary of the Board Poliquin,

I am writing on behalf of Parkside Credit Union, which serves Ford workers in Livonia and Westland Michigan, along with consumers who live and work in the communities surrounding our branches. We have 15,000 Members and $82,000,000 in assets. Parkside Credit Union appreciates 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 to express my strong opposition to NCUA's current Risk Based Lending (RBC) rule proposal, and to request that major revisions be made to the current proposal prior to implementation.

After reviewing the primary tenets of the proposed rule, along with the supporting "talking points" being communicated by the leadership of the NCUA, I firmly believe that the RBC rule as proposed is fundamentally flawed, and will put unnecessary additional regulatory burdens on this nation's credit unions (including my own), while imposing additional risks on credit unions because of the broader discretionary powers it allows for examiners.

While the FDIC fund became technically insolvent during each of the last two financial crises, the NCUSIF has performed very well under current PCA rules. I believe this NCUA proposal is misguided from the outset because it builds additional layers on top of already existing statutory standards that in many areas are more stringent than the Basel system for small banks. Credit Unions are already highly regulated and restricted. The current leverage requirement of a 7% net worth ratio in order to be considered "well capitalized", is 40% higher than the comparable requirement on community banks. The new threshold number for being well capitalized under the new rule is a ratio of 10.5%. Anything less than that and the credit union will be subject to PCA. Also under the new RBC rule, federally insured credit unions will be required to pass both the old and the new RBC requirements in order to be classified as "well capitalized", increasing the chances that a credit union will be subject to PCA requirements.

The NCUA has stated in its RBC talking points that it is 'required to maintain a capital standard comparable to federal banking agencies'. I assert that the credit union capital standard should not be literally applied as 'apples to apples', 'banks to credit unions'. Nor should it have a more stringent application than that of banks. This approach gives no consideration to the fact that most credit unions do not have access to supplemental capital, and can only raise capital levels through higher retained earnings. That fact alone demonstrates a large difference between banks and credit unions, and brings to light a challenging new risk this RBC proposal will impose on credit unions; which will be to the ongoing business strategy of the credit union. It is estimated that the new RBC rule as written would require credit unions to raise more than $7 billion in additional capital, just to maintain the capital buffers they currently have. Since their options for raising additional capital are limited by regulation, many of the credit unions will be forced to strategically reduce the risks in their portfolio, which will ultimately constrict credit union lending, particularly in the areas of residential mortgage and member business lending.

The NCUA states in its talking points that "Despite what some stakeholders have been led to believe, the rule will not require any well-capitalized credit unions to raise more capital to maintain a buffer". It also maintains that "92% of all credit unions today would be considered "well-capitalized" under the proposed formula", and "the only credit unions that may be required to raise more capital are about 200 credit unions that currently hold high risks in their portfolios". This a very short-sighted focus that gives no consideration to the potential longer-term, strategic planning implications of this rule on the currently well capitalized credit unions such as my own.

In developing this proposal, I personally don't believe that the NCUA has done enough to justify the need for it.

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

Sincerely,

Martin R. Carter, CEO
36525 Plymouth Rd
Livonia, MI 48150