Y-12 federal credit union

Locations:

Alcoa

Cedar Bluff

Clinton

Clinton I-75

East Lafollette

Farragut

Hardin Valley

Lafollette

Maryville

North Knoxville

Oak Ridge

Powell

Roane County

Sevierville

May 19, 2014

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

Subject: Comments on NCUA Risk-Based Capital Proposed Regulation

Dear Mr. Poliquin,

I am writing this letter to urge the NCUA not to pursue its proposal on risk-based capital as it was published in the *Federal Register* on February 27, 2014. Choosing to enact the risk-based capital rule as it is currently written will significantly degrade our credit union's ability to serve our 86,000 members. As context, Y-12 Federal Credit Union has assets of $718 million and is well-capitalized at 9.51%. Under the proposed rule, using the risk-based capital rule calculator provided on the NCUA website, Y-12 Federal Credit Union's risk-based capital ratio is 13.95%.

Please consider the following key objections to the proposed rule:

- Raising capital expectations will slow credit union growth by unnecessarily tying up funds that could be used to meet the financial needs of members.
- Arbitrary risk-weightings far exceed those imposed by banking regulators on banks, which creates extreme competitive disadvantages for credit unions.
- Proposed risk-weights for member business loans and first mortgages create strong incentives to not serve members in these critical sectors. This is counter to our mission and significantly undermines the financial engine responsible for a strong local and national economy.
- The over-reaching proposed 250% risk-weighting for investments in and 100% of total loans to CUSOs is arbitrary and unsupportable.
- The provision that authorizes the NCUA to establish increased minimum capital requirements for individual credit unions will lead to unfair and inconsistent interpretation and application, which will ultimately lead to mistrust between credit unions and the NCUA.
- The NCUSIF deposit is a valid asset that can be refunded for several reasons, and should therefore not be deducted from the risk-based capital numerator.
- The piling on of complicated and complex new rules is no substitute for responsible regulatory supervision and thorough safety and soundness examinations.

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501 Lafayette Drive
Oak Ridge, Tennessee 37830
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http://www.y12fcu.org

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The NCUA, in its efforts to address "credit risk, interest rate risk, concentration risk, liquidity risk, operational risk, and market risk," has lost track of why we all exist: to serve the financial needs of our members. The capital burden placed on our credit union will unnecessarily result in fewer loans made to fewer members at less beneficial rates and terms, all in a blind effort to forego risk instead of mitigating it through sound application of credit union policy and procedures. In short, we must serve our members by taking risks, getting paid for that risk, and managing it effectively.

The NCUA must remember that credit unions are established as a financial cooperative, which is far different than the banking model. Unlike banks that can sell equity, credit unions must *earn* their capital. The NCUA must be mindful of the difference and be extremely cautious in unnecessarily constricting the operating capital of credit unions. Losing sight of this critical difference—as clearly exhibited in its proposed risk-based capital proposal—will surely have the unintended consequences of driving its own constituents into mass stagnation or worse.

On behalf of Y-12 Federal Credit Union, I appreciate the opportunity to present our views on this proposed rule. If you have questions, please do not hesitate to contact me.

Sincerely,

Mark Ziegler
President and CEO
Y-12 Federal Credit Union
800-482-1043 office

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