MPECU

Minnesota Power Employees Credit Union

Honorable Debbie Matz
NCUA Chair

May 21, 2014

Dear Chair Matz:

I am writing this letter as comment to the NCUA's proposed risk based capital proposal. First of all, I want to thank the NCUA for providing a tool to analyze the impact of this proposal. The tool worked well for our credit union given our current position. The tool did not allow us to use our projected balance sheets or income statements to determine how the proposal would affect us in the future. I believe this is a critical need for this tool as our business is not static and how the proposal would have affected past results is important, but as managers we have to continue to look forward. I also had a question as to why the tool had levels in it for Member Business Lending that were above our regulated amounts? We are only allowed 12.25% of assets and the model listed loans from 15-25%. Are the new levels being raised with the new proposed legislation? Our Credit Union showed increased levels of required capital even though we are not currently a complex or higher risk credit union, according to the tool results. We have low loan to deposit ratio with very low past due loans and very few charge-offs. So it appeared that higher capital requirements are for ALL credit unions regardless of the risk they pose.

I believe the proposal is unnecessary and burdensome for Credit Unions. I also believe that the rule fails to take into account the special nature and characteristics of Credit Unions. I have worked on the bank side for the past 20 years and have only recently come to work for a credit union. I believe the true difference between banks and credit unions is that credit unions are wholly accountable to their members. Members are active, attend meetings, provide comments and monitor financial results. Regulation should be implemented when the system fails. Clearly the system on the bank side – at least for large banks - is broken as investment bankers investing 401k proceeds are accountable only to the banks themselves – not a very good watchdog. In fact, I have asserted for many years that our 401K accounts should be allowed to be deposited into financial institution CD's instead of being solely reliant on mutual funds where we have literally no voice or vote in how the company is being run. In short, large Banks do not have to earn their capital. They receive it from institutional investors who are only accountable to other bankers. Credit unions, in contrast, give back their profits to shareholders through lower rates and lower fees. We are not allowed to gain access to additional capital. Therefore, any ruling affecting capital would in effect require the credit union to retain earnings to build capital. This is a slow process – ask any banker! The additional capital requirements would penalize our members as we would be required to accumulate additional earnings to build our capital which would result in higher loan interest rates and fees. We are considered to be a well- capitalized credit union now so why would this be necessary?

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It took many years to implement the Basel system on the bank side. I believe it was close to 10 years in the process. This was for organizations who are allowed obtain outside capital. Why is there such as rush to implement this rule so quickly for credit unions? This is particularly a problem when credit unions do not have the opportunity to raise additional capital so it will take them much longer to build the necessary capital. The Basel system was also phased in to lessen the impact of the rule. Credit unions should be given ample time to make necessary adjustments – I believe that a period of 10 years or more would be reasonable.

The definition of Complex on the bank side starts at $250 Million. Why would a credit union be complex at $50 million? Are credit unions more complex than banks?

Member business loans are already restricted for credit unions. It will take approximately twice the capital to support the same size member business loan portfolio of a similarly sized bank. If the object of the NCUA is to turn all the credit unions into Mutual Savings Banks then this proposal should be approved. If not, I believe that there is more work than needs to be undertaken to make this proposal fair to credit unions and give consideration to the unique properties of credit unions.

Regulation is frankly becoming the biggest risk for smaller credit unions. This sentiment was echoed to me several times at the MNCUN Annual Meeting I attended in April. We spend a lot of our time insuring compliance and meeting the current regulations. We want to be safe, profitable organizations for our members. Having to hire a full time compliance person or spending more and more money on regulatory consultants reduces the benefits we can provide to our members and many would argue doesn't really make us any safer. Please reconsider this proposal and its implications. I do appreciate the opportunity to provide comments and hope that the NCUA will seriously consider the implications of this rule as well as any new regulations they propose.

Sincerely,

Debora S. Almirall

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President/CEO

Minnesota Power Employees Credit Union

cc. Minnesota Credit Union Network, Honorable Senator Amy Klobuchar, Honorable Senator Al Franken, Honorable Congressman Rick Nolan