

From: [Evelyn Sirois](#)
To: [Regulatory Comments](#)
Subject: Prompt Corrective Action Risk-Based Capital Comment Letter
Date: Wednesday, May 21, 2014 1:20:12 PM

Dear Secretary of the Board Poliquin,

I am writing on behalf of Members 1st Credit Union, which serves residents of Windham County, Vermont. We have 2000 Members and \$11,000,000 in assets. Members 1st appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action - Risk-Based Capital.

Do you agree this new proposal is necessary?

Do you agree NCUA should be able to impose higher capital requirements on credit unions on a case by case basis?

Do you have other concerns with the proposal? Please explain.

Summary of your position:

As one of the Small Credit Unions, I'd like to take the opportunity to submit a comment to NCUA on the critically important and substantially flawed Risk-Based-Capital proposal. The Committee believes that, if adopted as proposed, it will have a significant negative impact on the movement including small credit unions like ours.

Let me be perfectly clear. We support the idea of risk-based capital. That's because we don't like one-size fits all regulation and definitely don't like to be paying for the sins of those who take on too much risk. On the other hand, particularly in the absence of more comprehensive reform (including lower leverage ratios and access to alternative capital) we do not support the proposal and think it should be withdrawn.

Collectively we believe:

- There is no need for the proposed system. The Agency has chosen an excessively blunt instrument that punishes too many credit unions with higher capital set-asides, especially in light of the fact that the current system held up incredibly well throughout the worst economic catastrophe since the Great Depression.
- The additional capital resources required by this proposal will not only result in significantly lower levels of member service and satisfaction but will also put credit unions at a distinct competitive disadvantage relative to the nation's for-profit banking sector. This is a perverse result given the demonstrated historical conservative operations of credit unions and the role credit unions played during the downturn - both as a countercyclical force (lending as the banks pulled back) and a safe haven (taking in deposits as banks turned consumers away). In short, policy makers should be encouraging more of what credit unions do, not less and this proposal demands less.
- If adopted as proposed, the rule will produce a disproportionate decline in the monetary and other support that larger CUs have historically provided to their smaller counterparts. This will put additional strain on the finances and operations of many of the nation's smaller credit unions and essentially magnify the decline in credit union service to the nation's consumers.
- Many hundreds of healthy small credit unions will soon be larger - growing across the arbitrary \$50 million threshold that automatically makes them complex under the proposal. Inflation alone will cause a significant number to cross the threshold. Indeed, using historical average inflation rates - your \$40 million credit union becomes a \$50 million shop in roughly ten years. This will expose hundreds of small credit unions to the proposal's unreasonable risk weighting system and defective interest rate risk scheme, while it will seriously inhibit their growth, vitality and viability.

- We are especially concerned about the Agency's proposal to give examiners the power to impose arbitrarily high capital standards on individual credit unions – even if there is some sort of appeals mechanism. Some of us have experienced the appeals process first hand - and have come away with the impression that it simply is a rubber stamp process. Many who would have liked to use the appeals process tell us that they choose not to use it for fear of retribution.

- Low Income Credit Unions (LICUs) are currently exempt from Member Business Loan requirements and could be disparately impacted by the proposed rule weighting for MBLs. This will also disparately impact credit unions that have MBL portfolios, which are grandfathered. Analysis of historical loss rate experience shows that credit unions with higher concentrations in MBLs have lower overall MBL losses than their counterparts with lower concentrations. This is true over nearly 20 decades of history -- true during the great recession and also true when comparing peak loss rates. We believe this is a reflection of more experience and expertise among these lenders.

Absent withdrawal of the proposal, Members 1st advocates for the following improvements in the Agency's RBC proposal:

- 1) Fix the proposed risk weights to reflect marketplace realities: The current weights bear no relationship to actual credit union losses over time - both from the standpoint of losses relative to those in the banking sector and from the standpoint of comparative losses within credit union portfolios.

- 2) Remove the interest rate risk component from the calculation and keep interest rate risk evaluations in the realm of the examination function.

- 3) Remove the proposal to allow examiners to impose arbitrary requirements.

- 4) Index the \$50 million threshold definition of "complex". Consider providing a "safe harbor" definition of non-complex that would allow CUs to avoid the "complex" definition.

Sincerely,
Evelyn M. Sirois, CEO

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

Sincerely,

Evelyn Sirois
PO Box 172
Townshend, VT 05353