Meritrust
CREDIT UNION℠

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May 21, 2014

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

Meritrust Credit Union
Charter: 63283

Dear Mr. Poliquin:

I appreciate the opportunity to provide comments on NCUA's proposed Risk-Based Capital rule. Meritrust is a $975 million Credit Union providing a full range of services to members in 17 counties in central and eastern Kansas.

Meritrust CU certainly supports the creation of a strong and responsible risk-based capital system. However, that system must take into consideration the risk management practices of each individual credit union and not stifle the responsible growth practiced by most Credit Unions in this country. We believe that the current proposal is overly generic, does not address risk appropriately, and puts an undue burden on Credit Unions by establishing standards that exceed Basel III.

1. Again, while we support risk-based capital standards, we do not support standards that are excessive in relation to other standards like Basel III.
    a. Meritrust CU manages balance sheet risk in a very proactive fashion and reviews concentrations quarterly, all guided by a set of policies. Our delinquency and losses have been low. Setting standards for government guaranteed mortgages (20%) and non-delinquent first mortgage loans (up to 100% based on concentration) that far exceed Basel III standards seems arbitrary.
    b. The proposal's arbitrary 200% risk rating for member business loans in excess of 15% of total assets without regard to performance or credit risk seems punitive when Basel III is only 100%. This will stifle growth in this market for credit unions.
    c. The proposed requirements assign a risk weighting of 200% for securities guaranteed by GSEs with a weighted average life over one year as opposed to the Basel III standards of 20%. They are extremely low risk and have had no history of loss. We believe that the higher weighting for these longer term investments is not necessary since interest rate risk management is already covered by other regulations and the interest rate risk may be partially or completely hedged on the balance sheet.

2. The 250% risk assignment for CUSOs is arbitrary and seems to completely discount the actual risks associated with a wide variety of CUSO activities. This one-size-fits-all approach is contrary to responsible risk assessment. Its seems that the mismanagement associated with a handful of CUSO losses in the industry will penalize the vast majority that perform well and represent responsible collaboration to serve members, manage risk and control costs.
3. There does not seem to be any reasonable justification for deducting the NCUSIF deposit from the proposed calculations. Obviously these funds are available to cover any losses incurred. Additionally, it is an asset of the credit union like any other. We would strongly encourage NCUA to rethink this position and treat this asset like any other similar asset.
4. The proposed implementation period of 18 months is not reasonable and is inconsistent with timeframes set for implementation in Basel III. The industry overall is well-capitalized and actions made by credit unions to comply with this short time frame could be damaging to their institutions and therefore to the overal industry. We recommend NCUA consider an implementation period of at least 5 years.
5. We have very serious concerns about the authority of NCUA examiners to place individual minimum capital requirements as they see fit. This responsibility in the hands of examiners will blur the lines and allow regulators to begin direct management of credit unions, usurping the roles of the Board of Directors and management. We have seen many examples over the years of inconsustent evaluations of regulatory requirements in examinations. This blanket approach could have even more significant impact on individual credit unions.

We believe the proposed framework hurts credit unions and the industry and puts us at an even further competitive disadvantage with other financial institutions. Requiring credit unions to hold unnecessary levels of capital will ultimately result in smaller, less relevant Credit Union industry – the very opposite effect of what the intention seems to be. This proposal should be reconsidered and be developed in a more collaborative way with credit unions.

Again, we appreciate the opportunity for comment and are available to discuss this matter further if needed.

Sincerely,

James A. Nastars

James A. Nastars
President/CEO