

**From:** [Julianne Slusher](#)  
**To:** [Regulatory Comments](#)  
**Subject:** Prompt Corrective Action Risk-Based Capital Comment Letter  
**Date:** Wednesday, May 21, 2014 3:11:37 PM

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Dear Secretary of the Board Poliquin,

I am writing on behalf of Lufkin Federal Credit Union (LFCU), which serves the people who live, work, or worship in Angelina County, Texas. Our branch is located in Lufkin, Texas and we have one in-school high school branch in Hudson High School. We have 4751 Members and 31.5 million in assets. Lufkin Federal CU is a community based low-income designated credit union and we appreciate the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action - Risk-Based Capital.

I have been in the CEO position for just over four months now but I am the second generation CEO for this Credit Union. My Father served as manager from 1985 – 1998 so it is easy to see I was raised on the core value of "People Helping People." Over the years I have told the credit union story. How credit unions got started and why credit unions are uniquely different from other types of financial institutions. I'm very proud to tell people that credit unions have never asked for a government bailout. Even during the great depression credit unions actually prospered, while many banks failed. During my lifetime in 2008 during the most resent great recession credit unions weathered this and did not ask for a government bailout. Banks tightened their lending and reduced their deposits while credit unions continued to find ways to help their members. Without the credit unions I do believe the economic recovery would have taken a much worse turn.

We understand NCUA's intent to adopt new risk-based capital rule for credit unions that considers "all material risk". We note that under the Federal Credit Union Act NCUA is required to adopt a rule that is "similar to that available for the banking industry" but that "takes into consideration the unique structure of credit unions."

We at LFCU opposes the proposal as drafted. In our opinion, this proposal, if passed as drafted, would result in the loss in value members as credit unions would be forced to cease offering various services, some of the services we currently offer. The problem is, NCUA has not justified the reasoning behind some of the proposed provisions; they appear completely arbitrary. In recent years it seems credit unions are being treated more like a bank, when in fact we are very different. As financial institutions we both offer a wide range of financial services, however, as a credit union we are here to serve our member owners and are "not for profit" cooperatives providing financial education and financial services. We are not here to make a profit for an investment group of shareholders. At LFCU we understand that we must make a profit and from these profits set aside funds to deal with our potential losses based on the services we provide. We have a very conservative business plan in place to do just that. In addition, we must be able to offer our services with competitive rates to attract and retain our membership.

Given a credit union's only source of capital is retained earnings, CU Boards and Management will feel pressure to retain earnings to build capital. This means paying lower dividend rates, raising fees, and charging higher loan rates in order to maintain a comfortable buffer for "well capitalized". None of these actions are in the interests of members. The need to factor "capital at risk" into every balance sheet decision will cause CUs to minimize other areas of risk, and most likely credit risk. Lending will likely contract further as Boards offset additional risk-based capital requirements by taking less credit risk with members at the margin who historically have needed America's credit unions the most.

Additional comments:

Definition of "Complex" Credit Union (Sec. 702.103)

LFCU opposes the proposed definition of "complex" credit union. The proposal would define a "complex" credit union as ANY credit union with over \$50 million in assets. There is nothing magical about \$50 million in assets; size alone does not make a credit union complex. NCUA has provided no justification for expanding the definition of complex credit union.

Regulatory Burden ("Paperwork Reduction Act")

Small credit unions simply cannot continue to survive under current regulatory burdens. This proposal is one more example of unnecessary regulatory burdens impeding the ability of small credit unions to serve their members. Although many small credit unions will not be classified as "complex" and subject to the RBC requirements, the small credit unions are indeed still impacted by the proposal.

As drafted, the proposal increases the regulatory burdens of all credit unions, even those under \$50 million in assets. This is attested to by NCUA in the "Paperwork Reduction Act" portion of the proposal which estimates the time burden for each credit union (not just complex credit unions) to collect risk-based capital ratio data at:

- One-time recordkeeping, 122 hours;
- On-going recordkeeping, 20 hours; and
- One-time policy review and revision, 20 hours.

That equates to over 160 hours of work (or one full month!) for a small credit union that might only have a couple of employees. Does NCUA really think it is reasonable that a small credit union should spend a month of the year on this rather than serving its members?

In conclusion, LFCU believes NCUA's Basel-based rule does not fit America's cooperative credit unions and will have detrimental impact on credit unions' ability to serve our members.

America's credit unions – since their inception - have been the model of risk management in the U.S. financial system. No other class of financial institution has been as resilient to risk as credit unions. Lack of a profit motive, a mission of service, cooperative ownership, and more, are all reasons for this performance. It is no accident that fewer credit unions have failed throughout their history than any other type of financial institution.

Sincerely,

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