UTAHPOWER
Credit Union

May 22, 2014

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

RE: Proposed Prompt Corrective Action – Risk-Based Capital Regulation

Dear Mr. Poliquin and NCUA Board Members:

We appreciate the opportunity to provide comments on the proposed risk-based capital rule. Without doubt this is a topic of interest and concern to many and will generate a significant amount of discussion and comment for you to consider.

The concept of implementing a risk-based capital rule is something we generally are comfortable with and we would agree with the benefits of determining the amount of capital necessary based on risk. It makes sense to require all credit unions to cover their level of risk, whether that risk be high or low.

It is unacceptable for safe and sound credit unions, which pose very little, if any, risk to the financial system, to have to pay for the impacts of the decisions of those credit unions choosing to step into areas that are not prudent for them to go. If they choose to take on high levels of risk, they should be prepared to pay the consequences, which may result in losses.

Our members have already paid the price for the questionable decisions made by many credit unions which caused them to fail or incur unsustainable losses. Our credit union chose to stay clear of those kinds of risk. We too are willing to take some risk; to not do so is not fulfilling the financial responsibility we have to our members. But we are willing to accept that risk and pay for the consequences it may cause and we certainly do not expect others to bail us out.

Even though we agree with the concept of risk-based capital, we are not in agreement with much of the details of the proposed rule. Our primary concerns are in the following areas:

- A good rule does not need to be complex; simpler is generally better. In that regard, we question whether the new rule is actually needed or whether it provides a better solution than the current capital requirements.
- The proposed rule is far too arbitrary, especially with regard to the weighting factors that are assigned. Many weighting factors appear to be randomly assigned and inconsistent between areas of comparable risk.
- Assigning weighting factors to investments based on maturity does not recognize the potential risk of an investment. Long-term investments, in some cases, are less risky than shorter-term investments, depending on the investment type and the interest rate environment.
- Many CUSOs do not pose the risk that is assigned to them in the proposed rule. Sound financial activities can and do occur in CUSOs just like in the normal financial services of natural person credit unions, and this contribution to success should not be discouraged.

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- This rule is being imposed on credit unions that weathered the worst financial crisis since the great depression. We understand the intent is to prevent such a crisis from happening again, but imposing onerous rules on healthy organizations is unnecessary.
- In a time when credit unions are growing and seeing improvement from the difficulties of the past several years, the new rule would be a set-back and would slow progress.
- There would be a predominately negative impact on members as credit unions are required to maintain more capital, therefore paying lower dividends, and become more conservative with products and services.
- Raising the capital ratio is a difficult task and does not come easily. Allowing only eighteen months to be well-capitalized seems to be a short time frame for credit unions that find themselves with low capital due to the new calculation.
- Credit unions and banks are different in many ways. It doesn't make sense to try to align capital requirements for credit unions to that of banks. And it would be inappropriate, as well as detrimental to the industry, to impose higher capital requirements on credit unions, as the proposed rule appears to do, than is imposed on banks.

Utah Power Credit Union is probably one of the few credit unions that have a bigger "cushion" (between the capital calculation and the established threshold) under the proposed risk-based capital calculation than under the traditional net worth calculation. Even though the proposal may not currently harm us, we do see potential trouble with the proposal as written.

Nevertheless, we are in favor of doing what is in the best interest of the industry as a whole. And we believe staying the course, or adopting a risk-based capital approach significantly different from that proposed, and recognizing the concerns above, is the prudent move at this time.

Thank you for the opportunity to comment on the proposed rule and for your consideration of our views on this important issue.

Sincerely,

Dennis J. Hymas

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