From:	Robert Steeves
To:	_Regulatory Comments
Subject:	Prompt Corrective Action Risk-Based Capital Comment Letter
Date:	Thursday, May 22, 2014 10:40:52 AM

Dear Secretary of the Board Poliquin,

I am writing on behalf of the Board of Directors and the members of Essex County Teachers Federal Credit Union, Charter 1131, which serves Board of Education employees in Essex County, New Jersey. We have 2,600 Members and about $14 million in assets. I appreciate the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action - Risk-Based Capital.

As a credit union well below the proposed asset size to which this rule would apply, it appears that we will not be affected by it. That is far from the case. As I set forth below, several aspects of this rule will affect my credit union and my members in unintended ways. Beyond that I believe that anything that affects one group of credit unions and its members ultimately affects all credit unions and all credit union members.

I would like to make the following comments:

• NCUA has not put forth any real argument for the necessity of this regulatory action. The fact is that the current system, with its current definitions of capital adequacy, held up incredibly well throughout the worst economic catastrophe since the Great Depression.

• The additional capital required by this proposal will be detrimental to the interests of tens of millions of credit union members. To raise the required additional capital credit unions will have to charge their members higher interest rates and fees and pay lower interest on deposits. In addition to picking the pockets of credit union members, this will put credit unions at a distinct competitive disadvantage relative to the nation's for-profit banking sector. Policy makers should be encouraging more of what credit unions do, not less, and this proposal demands less.

• The need to grow capital that this rule will cause will almost certainly reduce the amount of support, both monetary and operational, that larger credit unions 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. Not only will members of large credit unions pay for this increased capital, but members of many smaller credit unions will pay as well.

• Defining a “complex” credit union by asset size is arbitrary and makes no sense. A credit union has complex risks only if it engages in complex activities. A credit union’s activities, not its asset size, should determine whether it has a need for a risk based capital requirement.

• Excluding the NCUASIF deposit from assets just makes this rule look even more arbitrary. This is a riskless asset and should be counted, not excluded, as such.

• I am especially concerned about NCUA’s proposal to give examiners the power to impose arbitrarily higher capital standards on individual credit unions. It was a long, hard road but over time NCUA has greatly reduced the number of cases where an examiner has arbitrarily required a credit union to do, or to not do, something based solely on the examiner’s opinion or whim. Let’s not go back the other way.

• Of almost as much concern as examiners' power to set arbitrary capital requirements is NCUA’s proposed power to set arbitrarily the weights assigned to various risk categories. This gives NCUA the ability to restrict severely certain types of lending, such as member business loans, real estate loans and student loans. Credit unions that have substantial positions in a loan category deemed too risky, despite a proven history of managing that risk, may have to alter their business strategy merely because NCUA doesn’t approve. NCUA should base any risk weights on historical facts such as losses on similar types of loans in credit union portfolios or, when that data is inadequate, banking industry performance.

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

Sincerely,

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