May 22, 2014

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

RE: Generations Community FCU Comments on Proposed Rule – Risk-Based Capital

Dear Mr. Poliquin:

This letter represents the views of Generations Community Federal Credit Union regarding the NCUA's proposal on Risk-Based Capital (RBC). I appreciate the opportunity to comment on this very important issue.

First and foremost, credit unions are in the business of managing risk. To assist in mitigating risk, laws are passed, statutes are enacted and regulations are finalized, providing fence posts for each institutions risk appetite.

Throughout my 28 years in the financial industry, I believe the majority of regulations/laws enacted were reasonable and well-intended. However, I have also seen a pattern of over-reach during times of crisis followed by reduction in regulations when economic conditions improve.

Based upon the most recent proposed rule for RBC, it appears to mimic this pattern. Credit unions must be allowed to manage risk within reasonable and acceptable parameters otherwise our industry will become irrelevant. Attempting to manage all risks with one regulation is analogous to playing a soccer game when the only person on your team is the goalie.

I do agree there is a need for a RBC framework, but in my opinion, the proposal overreaches in several areas. Specifically:

CUSO Investments
Establishing an arbitrary risk weight of 250% for all CUSO investments is not reasonable. If not for the opportunity to partner with a CUSO, many credit unions would not offer certain services to their members, primarily due to a lack of resources. This is especially true in the areas of mortgages, business loans, and data processing.

CUSO Investments (*cont.*)

In addition, the investment for most credit unions in CUSO's represents a significantly lower monetary risk than say mortgages and business loans.

Further, CUSO due diligence and servicing are managed via the Vendor Due Diligence regulations and should not be included in the risk based capital calculation.

Corporate Paid-in Capital

When the corporate credit union system was revamped after the financial crisis, credit unions had a choice to re-capitalize corporates or partner with the Federal Reserve. Our institution opted to re-capitalize the corporate credit union system primarily due to our product/service delivery experiences and relationships.

The revised corporate credit union operating model is significantly more risk-averse. More stringent operating processes along with stronger financial targets are in place to minimize risk relating to products and services offered by the corporates. With the improved risk mitigation regulation in place, I feel applying a risk weight of 200% is excessive and believe a more appropriate measure would be 100%.

Individual Minimum Capital Requirement

My largest concern regarding the proposed regulation centers around this component. Adding a purely subjective caveat to increase an individual credit union's RBC requirement undermines the entire regulation. It would be nearly impossible to implement this requirement consistently across the many organizations and structures within the credit union industry.

Implementation Period

The proposed implementation period after adoption of the new rule of 18 months is too short. Constructing complex balance sheets successfully occurs when implemented over numerous business cycles. Re-structuring within such a short time frame would require credit unions to make strategic decisions that could negatively impact their institutions i.e., reducing mortgage/business lending, selling longer duration assets, slowing growth etc.

I strongly believe a more appropriate time frame would be 3-5 years, which would provide credit unions the time necessary to appropriately adjust strategic plans to address the risk weights across numerous business cycles.

Managing to an acceptable level of risk in order to remain relevant as an industry should be the goal, and I truly believe it is imperative that this rule supports that goal.

Thank you again for the opportunity to comment on this very important proposed regulation. Should you have any questions regarding my comments or concerns, I am always available at 210-229-1800.

Sincerely,

Steve Schipull,
President and CEO