From:	Barbara Brown
To:	_Regulatory Comments
Subject:	Prompt Corrective Action Risk-Based Capital Comment Letter
Date:	Friday, May 23, 2014 1:00:56 PM

Dear Secretary of the Board Poliquin,

May 23, 2014

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

Re: Prompt Corrective Action-Risk-Based Capital

Dear Mr. Poliquin:

We are writing on behalf of Northwoods Credit Union, an institution of approximately 7,000 members and $74 million in assets serving Carlton and Pine counties in Minnesota. Established in 1936, Northwoods Credit Union has been serving our members for 78 years and continues to be a growing and strong financial institution. In 2012 we had the opportunity to purchase a local community bank and acquired 250 new members as a result of the acquisition. The impact of the risk based capital proposals may affect our desire to pursue future assumptions or mergers as aspects of the proposed rule could be detrimental to our capital adequacy. Our credit union has a strong desire to grow our membership base so that we can continue to serve the people in our area with all the new products and services that they need.

While understanding the need for safe and resilient credit unions, we would hope you would revisit the rule with its potential flaws and significant consequences to credit unions across the county. We strongly agree with the views of the MN Credit Union Network. The proposed implementation period of eighteen months is insufficient. The strategic plan we are currently working with may not allow for the sudden change. We are well capitalized under the current proposal, but could show significant reduction under the new plan. The banks in our market place would have a distinct advantage if our growth potential is impacted. We are in favor of a much longer implementation period so that credit unions have sufficient opportunity to make strategic decisions.

The proposed rule states that the method of calculating risk-based capital would be generally consistent with the methods used in other sectors of the financial industry. In comparing the categories and their risk weightings, credit unions under the proposed rule will generally fall under higher risk-weight requirements than those required for banks in the same asset categories, which would most certainly cause a competitive disadvantage for credit unions.

The risk-weights for different asset categories do not appear to reflect the underlying risk of each asset class. Our credit union has generally found that loss ratios are almost always higher on signature loans than on vehicle loans. In fact this would appear to be true for most credit unions, however, the current RBC proposal does not allow for this distinction. Another example is the lumping all first mortgage loans into one risk weighted category. There is no consideration given for whether the mortgage is a fixed rate or a variable rate or the current loan to value. If NCUA's goal is to more accurately capture actual risk these factors should also be considered when determining the risk-weight to apply.

Another issue we have with the proposed regulation is the treatment of fully insured investments. Requiring a twenty percent risk weight is burdensome. Most credit unions operate conservatively and sacrifice some return by investing in these shorter term and fully insured investments and this is the approach that NCUA has always encouraged us to take. Now the proposed regulation seems to penalize us unnecessarily for taking this approach. We feel that all fully insured investments should carry a zero percent risk weight. Also, it seems that classifying funds held in an overnight account at the Federal Reserve Bank the same as cash on deposit thus receiving a twenty percent risk weight is unnecessary. This type of account should also receive a zero percent risk weight.

We also strongly oppose the proposed rule's allowing that additional capital requirements can be imposed on a case by case basis. Capital requirements should be consistently applied in order to maintain objectivity. This loop hole could be cause for great discrepancies and challenges merely because of a difference of opinion. Too often we have had an auditor admit that if it was up to them they would never grant any loan because of the inherent risk associated with them but every credit union would fail quickly if they never took any risk. The ability to arbitrarily require additional capital limits may hamper the credit union's strategic goals.

Prior to putting in place a new risk based capital system, it is imperative to consider allowing credit unions access to additional secondary capital. This is particularly important during the period immediately following the rule's final implementation but prior to the effective date. This would also be beneficial since credit unions are at a disadvantage in the financial market because we do not have the ability to access additional capital outside of retained earnings.

The credit union mission is to serve its members, and it is becoming more onerous for credit unions to provide readily available consumer lending products, particularly mortgage loans. We understand that it is NCUA's job to protect the share insurance fund but it is also their responsibility to support the credit union movement and industry. The current risk based capital proposal is too far reaching and could limit our ability to succeed in the future and sustain healthy growth. Credit unions must be permitted to develop appropriate services and strategic plans that best suit its individual membership in order to remain a strong and viable industry.

Sincerely,

Barbara J. Brown
President

Paula K. Olsen
Vice-President of Accounting

Sincerely,

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