From:	George McNichols
To:	_Regulatory Comments
Subject:	George McNichols, Comments on Proposed Rule-PCA Risk-Based Capital
Date:	Friday, May 23, 2014 11:01:23 AM
Attachments:	ATT00001.bmp

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To: NCUA

From: George McNichols, President/CEO Hoosier Hills Credit Union

Subject: Comments-Risk Based Capital Proposal

We have reviewed the proposed RBC rules, and have found there are a number of issues we hope are considered before a final rule is enacted. Our concerns follow:

1. Investment in CUSO/ Commercial Loans. HHCU is a state chartered CU in Indiana. Indiana law provides for an investment in CUSO's up to 10% of assets. Years ago we established a commercial loan CUSO which gave us the ability to continue to fund commercial loans prior to our merger into Spencer County Co-op CU (this merger provided us with a waiver from the 12.25% commercial loan rule). Today, HHCU has $20,015,000 invested in CUSO's. In addition to the Commercial Loan CUSO, we have an insurance agency and a title company. Our commercial Loan CUSO has $13,215,000 in commercial loans. Based on our reading of the proposed rule, we would be charged 250% for our $20,015,000 CUSO investment plus 200% for the $13,215,000 in commercial loans held within the CUSO, resulting in a weight of 450% on the $13,215,000.

   The regional and community banks we compete with every day have a weighting of 100%. The commercial loans we hold in our CUSO are seasoned loans (we stopped adding to the CUSO loans following our merger into Spencer Co. CU) and they are preforming well.

   We monitor community and regional bank commercial loan portfolio performance in our area and we consistently outperform there DQ and Loan Loss results.

   We operate in rural communities across south central and southern Indiana. The largest town we are in has 13,000 people. Today, we have $108,930,000 in commercial loans which includes our CUSO loans. We have been in commercial lending for many years and have a lot of experience dealing with small businesses that operate in the markets we serve. We are important to the small communities where we operate. We manage the risk in our commercial loan portfolio based on the rules today. On average, over the past 5 years, our commercial loan operations net more than $2,000,000 to the CU every year. We have a lot of money invested in people and systems that support our commercial loan business. The weighting is inconsistent with actual results. We suggest it should mirror the weight placed on our banking competitors.

2. Consumer Loans. Today many large CU's are heavily involved in Indirect Lending. There are no distinctions made in the RBC rules between loans originated in-house and those originated at dealerships. The way the rule stands today it encourages

aggressive lending in indirect. We have a philosophical problem with the program features required to become a major player in indirect lending, the “buy rate”. Allowing dealers to mark up our rate to whatever the customer can bare is not a cooperative business principal. We have an indirect program in place for the convenience of our members, but we pay a flat fee to the dealership depending on the size of the loan. This rule would encourage more credit unions to participate in “buy rate” indirect lending.

3. ALM. We spend a lot of money on consultants and systems, plus a lot of time managing our balance sheet. The RBC rule does not appear to consider the duration of our liabilities, only the time horizon of our assets. Balancing interest rate risk within the balance sheet using only the asset side seems contrarily to sound asset /liability management. We manage today back to NCUA’s Interest Rate Risk regulations. The weighting in the RBC proposal should have a counter weight for liability management.

HHCU’s capital ratio was 9.61% of assets at quarter end. We have grown our capital ratio faster than asset growth for years. We are stronger today than ever. Our product and service offerings reflect the needs of our members and we play an increasingly important role in supporting economic activity in the rural communities we serve.

We are hopeful the agency will refine the current proposal. Many of the risk weightings in the proposal miss the mark based on our experience.

Thank you for the opportunity to comment.

George McNichols
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