DuPage Credit Union
– Where you belong

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May 22, 2014

The Honorable Debbie Matz, Chairman
The Honorable Michael Fryzel, Board Member
The Honorable Richard Metsger, Board Member
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Re: Proposed risk-based capital rule

Dear Chairman Matz, Board Member Fryzel and Board Member Metsger,

We would like to begin by thanking the Board for the opportunity to comment on the proposed risk-based capital rule and for your willingness to consider the concerns of all credit unions.

The concept of risk-based capital is not new to the credit union industry and we are among the many who have supported the concept through the years. Making it possible for credit unions to establish an appropriate reserve based on the inherent risks present on their balance sheet has the potential to make it possible for the industry to maintain the incredible strength it currently enjoys, while freeing up resources with little or no risk to be used to better serve our members and our communities.

That being said, there are several specific aspects of the current proposed rule that are a concern to us:

- Our first concern is in regards to the classification of investments. The term of an investment is certainly an important component to consider when determining the risks inherent to specific types of investments, but it is not the only important factor. Our credit union currently has a small, but not insignificant, portfolio of brokered certificates. Each of these certificates is fully insured by either the FDIC or NCUA and therefore poses very little risk to the credit union. While it could be argued that a longer term to maturity creates interest rate risk, it seems there are much better ways to address this than as part of the capital calculation.

- Our second concern is one that we believe was an unintended consequence, but is still very real nonetheless. We fear that the treatment of loans in the proposal, especially non-delinquent real estate loans, will create a disincentive for credit unions to lend to their members. This is a serious concern for us since lending has always been one of the primary core competencies of this credit union and any challenge to our ability to lend would result in a significant change to our strategic vision.

  We further believe that for all credit unions, lending is the cornerstone in building the strong relationships we share with our members. We feel that any attempt to deter a credit union from this primary purpose diminishes the prominent position that a credit union holds in the financial life of its members. While we acknowledge that risk is always present in any loan portfolio, we know that there are a number of ways for credit unions to manage that risk and still provide loans to meet the demand of our membership. At DuPage Credit Union, one of the ways we manage that risk is to sell to FNMA all of the first mortgage loans we originate. This has allowed us to expand our member relationships, while maintaining a consistent level of risk in our loan portfolio. The credit union industry has always done an exemplary job in managing lending risk and any attempt to impose additional capital requirements to reduce that risk must be weighed against the critical nature of the credit union/member relationship.

- Finally, we are also quite concerned about the provision in the proposal that would allow an examiner to impose additional capital requirements on a credit union. While we realize that in specific situations this could be deemed necessary, the lack of an established framework to quantify this additional reserve could result in different capital requirements among credit unions that have risk profiles that are very much alike. We believe that when considering the rigidity of the proposed calculation, it is unreasonable to allow examiners to require additional capital at their discretion and without quantification.

We feel that it is also important to consider this proposal, and the effects it could have, in relation to other challenges that credit unions are already facing. We believe those challenges include:

- The revocation of our tax-exempt status
- The loss of plastic card interchange and other types of non-interest income
- The loss of market share if we cannot expand our product and service offerings

We are also concerned about how this proposal could inadvertently change the form and function of credit unions of all sizes and types. These changes could include:

- The need to shift strategic plans away from serving members and toward a relentless focus on capital creation
- The competitive disadvantage this proposal could create and how that will limit our ability to continue to operate within the spirit of the cooperative business model
- The inability of smaller credit unions to manage the many complexities created by this proposal

Again, on behalf of the DuPage Credit Union Board of Directors and Management Team, we thank you for your time and for considering our concerns in this matter.

Sincerely,

Lawrence Kammes 5-22-2014

Lawrence Kammes, Board Chairman Date

Diane M Shelton 5-22-2014

Diane M. Shelton, President/CEO Date