AMERICA'S CHRISTIAN
CREDIT UNION

Mendell L. Thompson
President/CEO

(626) 208-5500
mthompson@americasccu.com

May 23, 2014

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

RE: Comments on Proposed Rule: PCA – Risk Based Capital

Dear Mr. Poliquin:

On behalf of America's Christian Credit Union I appreciate the opportunity to comment on the proposed Risk Based Capital rule. We are a credit union that is 56 years old and currently serve over 44,000 members nationwide. We have assets of over $278 million with an additional $185 million in off balance faith-based loans which we have the opportunity to service participating credit unions. Our credit union exists to provide all of our members with the very finest of financial services and products including both consumer and business services that are specifically geared toward churches. We have had a long history with our consumer side and continue to see exceptional growth in that area, especially in the area of providing adoption loan financing for parents who are looking to expand their family. In our business loan area, we offer our churches the full "banking" experience with checking, savings, and assorted financial services that will help their church thrive. We have been making church loans for over 20 years, and have church loans in 47 states. We have found this sector of our business to be not only missional, but very productive for the success and value of our credit union. As I will expand on in this letter, our loss ratio for our entire commercial loan portfolio for 21 years is 0.59 bp, which is exceptional by anyone's standards.

America's Christian Credit Union has a stellar history with excellent financial performance through our 55 years. We have shown a profit each and every one of those years, even during the most horrific recession that our nation has experienced in recent history.

I have been at ACCU for 38 years, with 28 of those years serving as President/CEO and I believe that I have seen the most significant swings in our economy during those times. I experienced the economy when the Prime Rate was at 21% and clearly have experienced the economy during these last several years when it was at its very worst. Once again, I am pleased to share that in spite of the onslaught of regulations, this credit union has shown a profit each and every year, has seen net worth grow, and continues to be in very excellent financial shape with our net worth over 9%.

STEWARDSHIP IN ACTION

With that context, let me be perfectly clear, we do not support the proposed risk based capital rule. We feel that this rule is devastating to our industry, our members and is illogical in the specific set of multiples and standards that it espouses. Since 1999, our industry has had Prompt Corrective Action, and this has served the C.U. community well. During the last 15 years, the credit union movement has maintained a capital ratio above 10%. Adding a risk based capital element increases considerably the regulatory burden, and will have grave unintended consequences.

These points are made abundantly clear in the recent letter by Congressman Peter King and Gregory Meeks accompanied by a bipartisan majority of over 324 Congressmen, two-thirds of the House, who have joined with them that have outlined their deep concerns regarding this proposal. To take one quote from their letter they state, "specifically, we encourage the Board to 1) take into account the cost and burden of implementing new risk based capital requirements beyond the current leverage ratio, 2) provide justification and more clarity as to why the proposed risk weights differ from those applied to other community financial institutions and 3) give credit unions more time than the proposal's allotted 18 months to come into compliance after it is finalized." We couldn't agree more with their sentiment. More recently, the former Senate Banking Chairman, Senator Alfonse D'Amato clarified in his May 7th comment letter that, "this proposal is not what Congress intended and urged the NCUA Board to quickly and judiciously reconsider the key elements in this proposal." Furthermore, former Senator D'Amato states, "rather than the dual risk based capital system in place for banks with the given risk based capital ratio threshold to be adequately capitalized and a higher risk based capital to be well capitalized, we instructed the NCUA to construct only a risk based net worth floor to take account of situations where the six percent requirement to be adequately capitalized was not sufficient." Once again, we could not agree more with these sentiments that form along with the following points, our opposition to this proposal. I would urge the NCUA Board to heed these points of wisdom and guidance from Congress.

We agree with ideas that have been shared by both CUNA and NAFCU that it is timely to reconsider a more viable and functional risk based capital system. To that degree, we would strongly support supplemental capital that would provide additional safety and soundness for not only the members of our institution, the credit union community, as well as the NCUSIF, as an additional backstop for unexpected losses or shifts in the economy. To propose the current risk based capital plan is simply an extraordinary regulatory burden that is not timely and proposes what amounts to an additional "tax" on all of the credit union members throughout the nation. There is a way to resolve the intended purpose of what your proposal speaks of, but it's certainly not couched in the proposal as presently presented.

Part of our opposition to this proposal is that the credit union system has weathered quite remarkably the most horrific recession that our country has ever experienced. In spite of the successes that the system has had, this proposal seems to ignore the historically solid performance of existing capital standards. This proposal would result in an increase of as much as $7.3 billion in capital requirements at covered credit unions through the imposition of asset risked ratings that frankly do not make a lot of sense, do not benchmark to reality such as our 0.59 bp loss in MBLs for 21 years and in most cases, are much more stringent than the Basel III risk rates to which small banks are held to.

2100 E. Route 66, P.O. Box 5100, Glendora, CA 91740 | 800.343.6328 | www.AmericasChristianCU.com

One of the biggest flaws in the proposed rule is the extent to which the NCUA has arbitrarily set risk ratings that far exceed those imposed by banking regulators on banks and specifically on community banks. The safety and soundness track record of credit unions does not justify the punitive treatment reflected by these more restrictive and illogical risk ratings as proposed in this rule. In our specific case, our MBLs will have a, "tax," of more than 200% assessed on our MBL loans that exceed 25% of our asset base when our loan loss history for 21 years has only been 0.59 bps. When you look at the overall historic MBL credit union loan loss ratio, the 200% is even more exaggerated and has no intrinsic basis for such a measurement to be employed. There is significant harm done by these high proposed risk ratings to both the market place that credit unions must live in, as well as to the competitive position that credit unions face daily. The NCUA Board would in effect be imposing a special "capital tax" on credit union members that bank customers don't have to pay to obtain similar products. This is grossly unfair and makes no logical sense.

Let me illustrate this by the following:

The NCUA proposed rules risk weights should be at a minimum rolled back to match those imposed on community banks. This roll back should apply to . . .

- NCUA 60-day non-performing asset definition vs. banks' 90-day definition
- NCUA's 20% risk weight for funds on deposit at the Federal Reserve vs. zero percent for banks
- NCUA's sliding scale of risk weighting for member business loans of 100% to 200% - depending on portfolio concentrations ranging from 15% to 25% of total assets vs. banks flat 100% across the board, and
- NCUA's sliding scale of risk weighting of first mortgage loans of 50% to 100% - depending upon portfolio concentrations vs. banks 50% across the board

Added to this list should be a revision of risk weightings that are specifically tied to CUSOs:

- NCUA's 250% risk weighting of total investments in CUSOs, and
- NCUA's 100% risk weighting of the total loan principle amount outstanding loan to CUSOs

It seems as though the NCUA has never heard of, or has completely chosen to ignore the credit union founding philosophy of, "people helping people." It simply makes no sense when CUSOs are created to provide efficiencies to credit unions that invest within them for specific services, now a new, "tax," must be placed upon such a cooperative spirit. Credit unions are built upon the cooperative spirit and CUSOs are a direct reflection of such a cooperative spirit, thus the illogical assumption that such a, "tax," should be placed upon the good intent of credit unions working together in such a cooperative spirit.

Another significant flaw and a very disturbing concept is found in Section 702.105 that allows the NCUA to establish individual credit union minimum capital requirements. The proposed rule would allow the NCUA (down to a field examiner level) to substitute their judgment and expertise for that of the credit union Board and the professional management of the credit union. This section should be dropped in its

2100 E. Route 66, P.O. Box 5100, Glendora, CA 91740 | 800.343.6328 | www.AmericasChristianCU.com

entirety. As I have read the more than 15 points that an examiner could set new capital standards, it simply does not make sense to give an examiner or a Region or for that matter, the entire NCUA, the draconian authority to violate an established due process spirit that is embedded in American law and corporate structure. In my view, the purpose of the risk based capital rule is to provide capital thresholds for the Board of Directors and management to operate within. If the proposed risk based capital levels are then subject to individual credit union qualitative assessments by the regulator, then what value is the entire structure? In my 28 years as a CEO, I have come to learn and observe that the NCUA has ample existing regulatory powers to meet the needs of an engaged regulator without this section. Might I propose that if dropping this entire section is not achievable, then a clear and flexible waiver process and/or appeal process to a third party that is not the judge and jury such as is the NCUA is now, be offered as a suitable resolution.

Section 702.104 classifies the NCUSIF deposit as a deduction to the numerator in the proposed risk based capital ratio calculation. The NCUSIF is a valuable asset and is not the property of any other entity. Credit unions are required to maintain a 7% prompt corrective action minimum capital ratio. As a result of HR 1151, credit unions are required to carry a higher capital/leverage ratio because of the NCUSIF deposit. Deducting the NCUSIF deposit from the numerator as is proposed in the risk based capital computation, is double dipping. The NCUSIF deposit, which again is a valuable asset for every credit union, should not be a deduction in the capital calculation. The NCUSIF deposit should be carried as 100% or lower risk rated asset.

The proposed 18-month implementation period as outlined in the proposed rule, is simply unachievable, inequitable, and does not mirror what is provided for the community banking sector. Banks have been allowed up to 7 to 9 years to comply with Basel III standards in addition, to having the option of acquiring additional capital through secondary capital offerings. The proposed implementation period of 18 months for this rule should be extended to at least 84-108 months to be fair and equitable and not cause severe unintended consequences for the industry.

I have alluded to the fact that in my opinion, this is nothing more than an additional, "tax," on the industry and the members it serves. It seems as though history should be reflected on to see that additional taxation is not a catalyst for growth of any kind. Usually, the effect of additional taxation is a constriction of growth and of revenue. It seems as though a more proactive and progressive approach would be to allow capital to continue to be earned and supplemented by a progressive supplemental capital plan. By imposing the multiples and the standards that are embedded in this proposed rule, there is a significant chance that capital will be restricted, revenue growth will see a decline, and once again, serious unintended consequences will manifest themselves within the industry. Credit unions need to be provided a template for survival that is equal to or better than our main competition, which are banks. A higher capital tax on MBLs will do nothing more than to restrict the ability for credit unions to offer to their members, good solid member business loans which incidentally, were the motivating factors for many credit unions to exist in our early history. I would strongly urge the NCUA Board to consider eliminating the onerous MBL multiples that clearly tax and/or restrict MBLs from being made to those of us who have a history and might I add, a very good and strong history of making value-added

2100 E. Route 66, P.O. Box 5100, Glendora, CA 91740 | 800.343.6328 | www.AmericasChristianCU.com

MBLs to a specific niche. Short of elimination of such a requirement, I would propose that there be waivers embedded within the proposed rule that allow specific exceptions for credit unions like ourselves that have demonstrated a capacity to manage and to provide sound member business lending to our members for over 20 years.

This proposed rule has the unintended consequence of changing dramatically and significantly for generations to come, the trajectory of where credit unions are headed. Maybe this is the purpose of NCUA, but being a person of hope and faith, I want to believe that is not the intention. This is a seismic moment within our industry and to adopt such an ill-advised proposal that strikes at the very heart of each of the credit unions nationwide is simply not prudent or wise. Banks have studied such a change to their capital standard for over 10 years and as previously noted, have been given anywhere from 7 to 9 years to implement such changes. It simply doesn't ring true and pass the smell test of logic that such a proposal could be offered without the proper vetting and collaboration within the industry which includes both State and Federal regulators that would allow us a more productive and successful outcome. One size does not fit all, and regrettably, this proposal appears to be intended to not only do that, but to be directed at a few while making the whole suffer. There is sufficient amount of regulatory authority to demand change by the few and if secondary capital was a part of any risk based capital plan as logically it should be, then I believe we would be on a better track.

It is clear to me based upon data that I have reviewed from various sources, that the NCUA has dropped its responsibility to adequately propose fair and logical risk ratings. The data supports the opposite wherein the risk ratings as currently proposed are more stringent than the Basel risk ratings for small banks. Credit union loss rates on comparable loan types are typically lower than at small banks; and the structure and performance of credit unions thus suggest the risk rates should be less stringent. With the exception of consumer loans, it is clear, that NCUA's proposed risk rates are higher than the risk rates applied to community banks under Basel III. In two important cases, residential mortgages and member business loans, the weights would be double the comparable Basel weights; this despite the fact that for these two categories of loans, credit union losses trend at about half the loss rates of community banks. It's clear that one of the outcomes will be that if such risk rates are implemented, that this would deter the provision for credit unions and their members to acquire mortgage and business loans as they do now. This makes absolutely no reasonable or logical sense.

In closing, it appears that this proposed rule, while apparently intended to provide the industry with greater safety and soundness by allegedly creating regulatory parity with banks, will indeed have the opposite affect if passed in its present form. It seems as though the proposed rule serves the needs of the regulator and the NCUSIF first, with seemingly little regard for close to 100 million credit union members. Through unrealistic and illogical weighting of risk factors as I've pointed out, with little or no regard to credit union strategic goals and objectives, this rule if passed in its present form, will penalize credit unions despite the industry's good performance during the recent recession. Let me just state again, during the recent recession, America's Christian Credit Union never lost money and saw its net worth grow as a result of prudent and diligent oversight and management. This is not something that we should be penalized for. Additionally, if passed, this proposal would assess higher levels of capital

2100 E. Route 66, P.O. Box 5100, Glendora, CA 91740 | 800.343.6328 | www.AmericasChristianCU.com

through a variety of illogical risk weighting measures that are more stringent than those applied to banks and could even increase more, if an examiner was so inclined to exercise one of the more than 15 levers afforded to him/her to require additional capital. This would throw the ability to manage our margin and our asset liability up in the air. Lastly, this rule as proposed, would clearly place credit unions at a competitive disadvantage and require far more capital than what is required for banks.

Thank you for the opportunity to comment on this proposed regulation. I respectfully would ask that more time, more thought, and more collaborative consideration might be given to recreating this rule. While we support a form of risk based capital, we feel that this proposal short of the aforementioned, should be withdrawn if it cannot be corrected. With the proper alterations along with a robust supplemental capital plan that I believe that Congress would gladly support as a secondary safety net for credit union members and the NCUSIF, this rule could be the start of an effective process of risk management for all credit unions.

Sincerely,

Mendell L. Thompson
President/CEO

2100 E. Route 66, P.O. Box 5100, Glendora, CA 91740 | 800.343.6328 | www.AmericasChristianCU.com