West Virginia Central Credit Union

Wherever You're Going, We're There!

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

May 14, 2014

Re: Risk Based Capital Proposal – Comment Letter

NCUA Board of Directors:

I want to thank the NCUA board for the opportunity to comment on the Risk Based Capital proposal. There are several areas in the proposal that causes concern but let me first share some information about West Virginia Central Credit Union (WVCCU).

WVCCU is a state chartered federally insured financial institution. Our field of membership is select employee groups and we currently have 17,338 members with total assets of $131 Million. We are a profitable credit union serving our members to the best of our ability. Our members come to us for fair priced lending products, which has brought our loans outstanding to $81 Million.

Please see the following financial trends to be able to better understand our credit union:

- Net Worth – Over the last three years our capital / assets ratio has fallen from 8.87% to 8.74%. This compares to a peer average for 2013 of 10.75%
- Loan Growth – Over the last three years our loan growth has averaged 14.33%, which compares favorably to the peer average of 6.88%
- Loan to Share Ratio – our ratio has grown to 70.01% as of the end of 2013 compared to the peer of 67.59%
- Delinquency Ratio – Our ratio over the last three calendar years have been 0.27% 2011, 0.55% 2012 and 0.37% for 2013. This compares favorably to our peer group of 1.44% 2011, 1.17% 2012 and 1.07% 2013
- Net Charge-off to Average Loans – Our three year trends are 0.26% 2011, 0.09% 2012 and 0.21% for 2013. Peer group shows 0.67% 2011, 0.64% 2012 and 0.52% for 2013
- Return on Average Assets – Our net spread in 2011 was 70 bps, 121 bps in 2012 and 88 bps in 2013 compared to the peer of 39 bps in 2011, 62 bps in 2012 and 56 bps in 2013

1306 Murdoch Avenue • Parkersburg, West Virginia 26101
304.485.4523 • toll free: 800.642.1902 • fax: 304.424.0718
www.wvccu.coop

Since 1999 WVCCU has increased assets by an average of 10.67%. Assets increased 10.68% in 2013. Despite the fact that we have been profitable over that time period with such strong asset growth it has been a struggle to even maintain our capital / asset ratio. Over that 15 year time period our capital / asset ratio has grown to a high of 11.53% and declined to a low of 8.86%, which was as of the end of 2013.

WVCCU has a strong asset liability philosophy and continually discusses the pricing of our deposit and loan products. While we realize that we can slow our asset growth by reducing our dividend rates, we have made the conscience decision to offer the best rates possible as long as we can remain profitable and maintain a reasonable capital ratio. Our current cost of funds is 74 bps, while high compared to most financial institutions; this cost of funds depicts our strong desire to provide the best possible return to our members.

Specific information in reference to the RBC proposal:

- WVCCU would remain well capitalized in the proposed system, but our capital cushion would shrink.
- WVCCU would see its cushion over well capitalized on the current system shrink by a total of $1,807,232 if the proposal were in effect today.
- WVCCU now has a cushion over well capitalized equal to 175 basis points on total assets over the 7% well capitalized level.
- Under the proposal, the cushion over well capitalized would decline to 24 basis points on total assets.

Over the years when we have heard about the possibility of a risk based capital proposal, I would always assume that the regulation would allow for a reduced capital ratio when compared to the assets on the balance sheet that carried an actual measurable risk. My assumption was that since our investments were relatively simple and were either covered by FDIC, NCUSIF or the full faith and credit of the U.S. government and loans were collateralized at reasonable LTV that a well-capitalized level might be 5% or 6%. This type of a ratio would be more along the lines of the expectations for the for-profits banks. This type of level of capitalization would allow our credit union to do even more with our capital dollars for the overall benefit of our membership. Allow us to accomplish what we are in the business to do!

Concerns that I have include:

1. The need to increase my capital dollars to allow for a reasonable cushion under the new system. With our asset growth and the increasing support of our members a cushion is needed to allow us to grow without falling below the well-capitalized level. To allow this to happen, we can reduce our dividend rates with the hopes to slow growth, increase loan rates with the hopes to increase net profits or potentially increase fees to produce net income. All of which would be to the detriment of our members.
2. Since capital can only be created from net income, a credit unions ability to raise capital falls short of what for profit banks can do. The limited ability to add capital dollars must be considered in this proposal.
3. Current proposal removes our NCUSIF deposit from both capital and assets. This reduction of $1M from capital is a significant effect to the ratio even if it is also reduced from the asset total.

Using your proposal of reducing capital dollars and risk based assets by the NCUSIF amount our ratio is reduced 75 bps. Based on how well the fund and credit unions have performed since 2008, this part of the proposal does not appear well conceived.

4. I would also be interested in knowing if the proposed handling of the NCUSIF happens, would the AICPA rethink how the deposit would be accounted for in the future? A change in accounting treatment would not be warranted and would also be detrimental to operations.
5. The proposal allows NCUA to require larger capital / asset ratio on a case by case basis. This apparently would be at the discretion of the examiner, regional office or the NCUA board. None of which make much sense. The ability to arbitrarily increase the expectation should not even be considered. Set a reasonable expectation – one that is fair to credit unions and allows for the credit union to manage their own balance sheet and then let credit unions to do just that.
6. When applying a risk rating to investments or loans it would seem appropriate that the rating would be no greater than what is being used by the banking industry.
7. Delinquency ratios in credit unions are low and maintained. Based on the quality of the lending and collection process, why would the risk rating on real estate and business loans be greater than 1.0?
8. Our investments are fully insured by FDIC, NCUSIF or the full faith and credit of the federal government, which truly produces no repayment risk. NCUA is attempting to add risk based on maturity of the investments. This might create a situation where WVCCU would be reluctant to invest longer than 5 years. While this may produce lower interest rate risk it will also reduce a credit unions ability to ladder investment and make an adequate return. A well-structured investment ladder should be encouraged - not discouraged.
9. The time period for the final regulation to become effective needs to be increased. 18 months is not enough time for a credit union to adequately prepare considering the complexity of risk based capital. For profit banks have been given a number of years to prepare and there is no reason to have a stricter expectation for credit unions.

Overall, WVCCU feels a credit union should be rewarded for controlling risk as opposed to having to re-structure our balance sheet as would be needed based on the proposal.

WVCCU would ask that further consideration be given to all the items as outlined in our comment letter above. Our credit union needs more, not less, flexibility when structuring our balance sheet to the benefit of our members.

We thank the NCUA board for their willingness to consider our comments.

Sincerely,

Michael A. Tucker

Michael A. Tucker
President / CEO