



May 20, 2014

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

Dear Mr. Poliquin,

Central Minnesota Credit Union (CMCU) appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) Board (the Board) regarding the proposal to amend NCUA's regulations regarding prompt corrective action (PCA) with respect to new risk-based capital requirements. We agree with the Board's intent of developing a regulation that is consistent with the other financial regulators' approach to accurately identify risks and quantify appropriate capital levels.

While the proposed rule has numerous points that need to be addressed, we will endeavor to articulate our concerns with the following:

1. The need for a quantitative impact study (Study) of the proposed rules prior to implementation
2. MBL Risk-weighting disparities between NCUA and the other FFIEC regulating agencies
3. Individual Minimum Capital Requirements (IMCR).

These concerns are not all inclusive of CMCU's concerns with this proposed rule. The industry and others affected will invariably make strong comments on other aspects of this proposed rule and make the case that this rule, as a risk "catch-all" to be wholly protected by capital, will not be able to regulate risk and isolate the NCUA insurance fund from loss. CMCU and other credit unions, while in the same industry, are unique (i.e. business models, strategies, management, locations, market make-up, etc...) and arbitrary, yet standardized risk weightings will do irreversible harm to the industry.

1. **NCUA needs to conduct a Study of the impacts of and address any findings prior to execution of the proposed rule.**

NCUA acknowledges: "Existing data available to NCUA, including Call Report data does not contain all of the information required to analyze the impact of every aspect of the proposal. However, NCUA believes the current Call Report data available provides sufficient information for NCUA to reasonably estimate the impact of the proposed regulation."

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CMCU strongly encourages the Board to initiate a Study in order to measure the impact of the proposed regulation before the rules takes effect. Discretion requires that measured steps be taken before undertaking or considering such an important change.

Further, CMCU believes that attentive deliberation regarding the execution and interaction of the proposed rule with any additional rules that may be forthcoming regarding capital levels (i.e. FASB's Current Expected Credit Loss impairment Model (CECL)) in credit unions must be conducted. These proposed and potential rules in their totality and the resultant financial and economic impacts should be considered and fully understood by all parties before the rules are enacted.

Specifically, a Study would help the Board assess and respond to claims that the proposed regulations are far more restrictive than the other FFIEC regulators' rules and will not adversely affect the competitiveness of credit unions as compared to other regulated financial institutions. Additionally, the Study's results and its effects on credit unions would enable the Board to more thoroughly understand the potential financial and economic impacts and alternatives to its proposed rule.

Further, a Study will invariably suggest a longer implementation period is necessary. By setting implementation dates over an extended period after publication of a final rule, credit unions can better manage the timing of strategic plans necessitated by adoption of the final rule. In general, the industry is hesitant to implement proposed rules when the details may change substantially between proposed and final rules. Establishing an implementation date that allows for an appropriate amount of time after the adoption of a final rule for staggered implementation is a reasonable solution that would allow credit unions to plan for and implement required system and process changes resulting from the certainty of a final rule. A staggered implementation timeline is also consistent with the other FFIEC regulators' implementation timelines.

2. Disparities in MBL risk weightings between NCUA and other FFIEC regulators

Within the Summary of the Proposed Rule the Board stated: "...new method for computing NCUA's risk-based capital measure that is more consistent with...the risk-based capital measures used by the Other Federal Banking Regulatory Agencies."

This statement, while initially encouraging in that it implies the competitive playing field would remain level for all federally regulated financial institutions, is disingenuous when it is further detailed within the proposed regulation. Specifically the Board's risk weightings, which in major areas are inconsistent with the other financial institution regulators' approach, are particularly harmful to assessing credit unions' capital adequacy and exposure to risk.

The proposed regulation details the risk weight categories and assigns portions of “MBLs” to multiple risk weight categories. These multiple risk weight categories are “inconsistent” with the approach of the other financial institution regulators and harmful to the competitive environment amongst all financial institutions. In the following table, CMCU compares the financial impact of this proposed regulations’ risk weightings with those developed by the rest of the FFIEC regulators and detailed in the “New Capital Rule--Community Bank Guide” published in July 2013, and exposes MBL disparities that eviscerate a competitive environment that benefits consumers.

NCUA Proposed Risk Based Capital for CMCU vs. New Capital Rule-Community Bank Guide (July 2013)		
	NCUA Proposal	Other FFIEC Regulators
MBL Denominator Impact	\$679,000,000	\$422,000,000
Risk Based Capital Ratio	11.87%	16.68%
Capital Disparity	\$33,000,000	

Without substantial changes to the proposed regulation these disparities will cause credit unions to alter their business practices having the potential net effect of concentrating the credit union industry’s lending into lower earning credits or investments as opposed to diversifying it, which will dramatically lower industry capital accretion and ultimately expose NCUA’s insurance fund to future losses. By trying to limit concentration risk, in what the Board deems as risky lending, the Board will inadvertently cause even more concentration risk in credit unions.

The proposed rule notes: “Only 70 of the credit unions holding MBLs have MBL portfolios in excess of 15 percent of total assets...NCUA considered developing an alternative version of the current method for computing the MBL’s 15 percent concentration level that would have addressed the potential for reduced risk in a well-diversified MBL portfolio...The Call Report data provides no information on the geographic distribution of the MBL portfolio and the additional information needed to properly identify the nature and extent of any diversification would place an additional data reporting burden on credit unions with an uncertain result. Due to the lack of diversity in the types of MBLs held by credit unions and the reporting requirements to potentially identify diversification, the Board decided to propose maintaining the current risk-weight concentration levels. ”

The reporting burden of providing more Call Report data is one that we believe all of those 70 credit unions would consider if it would eliminate the arbitrary and capricious risk-weightings proposed.

CMCU had total assets of approximately \$750 million as of December 31, 2013, and is also one of the 70 credit unions singled-out as having Member Business Loans in excess of 15 percent of total assets and would be subject to and substantially harmed by this rule as it is proposed. We were “grandfathered” in as a MBL credit union and over our highly successful 75 years, CMCU established expertise and developed strong underwriting standards that make us well suited for dealing with the inherent risks of our well diversified MBL portfolio. A significant amount of our lending portfolio under the Board’s

proposal would require a risk-weighting of 200 percent. CMCU has never had a loss in the portfolio that even came close to the other FFIEC regulators' MBL risk-weighting of 100 percent and certainly none that could justify a 200 percent risk-weighting.

3. Individual Minimum Capital Requirements (IMCR)

As the proposed rule is currently drafted, individual credit unions may be required to provide additional capital based on the subjective analysis of individual examiners. This additional capital appears to act more as an extra capital obligation above stated minimums for the purpose of covering an examination team from actually addressing the perceived risk(s) and requiring actions that mitigate or offset those risks. If the risk-weightings are as robust as stated in the proposal then the IMCR is redundant and onerous to any credit union that may be subject to its use.

Risk Based Capital should not be relied on as the great "catch-all" to eliminate poor underwriting, substandard management abilities, etc... If the intent is to cover all regulatory concerns (asset quality, management ability, earnings adequacy, liquidity position) with capital, then a minimum capital level of "X" percent should be established and the only requirement of the examination team would be to determine if capital remained above the minimum. We do not believe this is the Board's intent, but it is certainly one perception of this rule in the industry.

Conclusion

Based on our understanding and interpretation of the proposal it appears that the Board is responding to external pressure to address international, financial risk standards (that were instituted to address international transactions) while trying to mitigate internal concerns from the industry to limit the compliance burden of yet another new rule. This balancing act on the proverbial "two edged sword" has resulted in a proposal that will be excessive and punitive in its implementation as a result of limited research to avoid industry blowback regarding further compliance burden.

It is our belief that this proposed rule should be abandoned, or at a minimum be tabled until further research can be completed to fully understand its impact on the industry.

If you would like to have further discussions or have any questions please do not hesitate to contact us at 888.330.8482.

Sincerely,



Richard J. Odenthal, CEO



Chad Middendorf, Chairman



Bernard N. Brixius, CAO



Michael G. Wehlage, CCO



Charles B. Friederichs, COO