



May 23, 2014

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

RE: Comments on NCUA Proposed Rule: Prompt Corrective Action—Risk-Based Capital; RIN 3133-AD77

Dear Mr. Poliquin,

The Credit Union Association of the Dakotas (CUAD) and our credit unions appreciate the opportunity to provide comment to the National Credit Union Administration (NCUA) with regard to the proposed amendments to Prompt Corrective Action—Risk-Based Capital. To provide a brief background, the Credit Union Association of the Dakotas represents sixty-eight state and federally chartered credit unions in the states of North Dakota and South Dakota, whose assets total over \$5.5 billion and who have more than 450,000 members.

Our credit unions operate in very rural states. Many of the areas credit unions in the Dakotas serve are small towns and high agricultural areas. Based on 2013 estimated data from the U.S. Census Bureau, South Dakota had an estimated total population of 844,877 and North Dakota had a total population of 723,393. Just for comparison purposes, in Virginia, where the NCUA is headquartered the U.S. Census Bureau estimates that the 2013 total population was 8,260,405. South Dakota has more than 11 million acres planted annually with wheat, corn and beans and its over 17,000 ranchers have 3.7 million head of cattle. In North Dakota, farms and ranches occupy almost 39 million acres, nearly 90% of the land area of the State. Both states lead the nation in the production of various crops such as oats, wheat and barley. In many ways our States feed much of the nation and the nation relies upon the Dakotas' farmers and ranchers. But to continue to feed America, these communities need access to credit. And for more than 75 years credit unions have played a key role in these communities with a safe, affordable access to credit union.

A number of these credit unions in North and South Dakota have a long, established and proven history of providing safe and sound agricultural lending to their members. CUAD and our credit unions are extremely concerned regarding the NCUA's proposed rule to amend regulations



regarding prompt corrective action – risk based capital. The proposed risk-weights for member business lending is among our credit unions’ top concerns. The proposed risk-weights will impede credit union growth and sustainability. As proposed, this will hurt credit union members and consumers in the communities that the credit unions serve.

CUAD therefore submits this video, which can be found here: <https://www.youtube.com/watch?v=K9gtYiOQPo> as official comment to the National Credit Union Administration’s proposed rule regarding prompt corrective action—risk-based capital. Please also find enclosed the transcript of this video which is incorporated herein as our comments in response to the NCUA’s proposed rule. This video visually illustrates the area in which our credit unions operate and the struggles that our credit unions and their members face.

Thank you for this opportunity to share our comments and concerns.

Respectfully,

A handwritten signature in black ink that reads "Robbie Thompson". The signature is written in a cursive, flowing style.

Robbie Thompson
CEO/President

Enclosure: Transcript to Credit Union Association of the Dakotas’ comment video regarding the risk-based capital proposed rule.



ENCLOSURE to Credit Union Association of the Dakota's May 23, 2014, comment letter to the National Credit Union Administration's proposed rule: Prompt Corrective Action—Risk-Based Capital; RIN 3133–AD77.

**TRANSCRIPT FOR CREDIT UNION ASSOCIATION OF THE DAKOTAS'
COMMENT VIDEO REGARDING THE RISK-BASED CAPITAL PROPOSED RULE**

A Production of The Credit Union Association of the Dakotas

The National Credit Union Administration's (NCUA) Risk Based Capital – Proposed Rule

(Robbie Thompson, President/CEO, Credit Union Association of the Dakotas)

Hello, I'm Robbie Thompson, with the Credit Union Association of the Dakotas, standing here on the border of North and South Dakota. This is a highly agricultural area with lots of farming/agricultural communities. And that's where many of our credit unions are located – small, rural, agriculturally centered communities. And these credit unions are very concerned about the risk-based capital rule proposed by NCUA. They're concerned that it is going to hinder their ability to provide mortgages, small business loans, and most importantly agricultural loans to farmers and people in these communities that need and rely upon the credit unions. So we've taken the opportunity to come out and have a conversation with many of our credit unions in these areas – here in rural South Dakota and rural North Dakota. We hope that NCUA considers this as they look at their final rule. We hope that they take into consideration the risk weightings and look at ways to help these credit unions be able to continue to lend. Without these credit unions in these communities many of these farmers in rural areas would be subject to higher interest rates and higher fees and less competition. And we're very concerned with the overall impact that this rule is going to have on the credit unions in these areas. So let's hear from some credit unions in North and South Dakota and learn a little bit about what the impact that this risk-based capital rule could have on credit unions in rural North and South Dakota.

(Mike Reismour, CEO/Manager of Dakota Plains Credit Union, Edgeley, ND)

Dakota Plains Credit Union has been here for 73 years. We are based on consumer and ag lending. Back in 1985, the credit union expanded into the Ellendale community and not less than five years ago, we expanded into the Enderlin community of North Dakota. We're all about the same in the community size – we're anywhere from about 650 up to 900 people in the community. All these communities are very much ag based.

(Peter Butterfield, CEO/Manager of Dakota Plains Federal Credit Union, Lemmon, SD)

Dakota Plains Federal Credit Union emerged in 1957. We are an ag based credit union. About 50% of what we do is ag related, ag and commercial. Lemmon was originally established as an



ag community. The town is named after George E. Lemmon, the founder of the community and he was, at the time, he had the largest amount of cattle acreage, (under) within fences in the world at that time.

(Cindy Hegland, CEO of North Star Community Credit Union, Maddock, ND)

North Star Community Credit Union was established in 1940 by the local farmers and businessmen of the small community of Maddock, ND. They were chartered for the purpose of offering financial services to the local co-op members which was the Farmers Union Oil. We currently serve five areas, Rugby, Maddock, Bottineau, Grafton, and Cavalier and we are ag-lead lender in all of these communities.

(Harold Hagen, CEO of Hometown Credit Union, Kulm, ND)

Hometown Credit Union originated in Kulm, ND in 1949, so we are in our 65th year of operation. We serve primarily farmers and ranchers. Right now we have about 3,000 members and about \$87 million in assets – a majority of which are put out in ag loans to help farmers and ranchers buy equipment, livestock, put in their crops, and buy real estate.

(Dan Cumbee, President of Dakotaland Federal Credit Union, Huron, SD)

Dakotaland is a rural credit union in eastern South Dakota that serves about 28,000 members. We have nine branch locations with Huron having two offices, also includes Brookings, Madison, Volga, DeSmet, Redfield, Woonsocket, and Mitchell. We have twenty-five counties which encompasses 19,440 square miles or 197,000 people or 10 people per square mile.

(Steve Schmitz, President/CEO of First Community Credit Union, Jamestown, ND)

First Community Credit union, we were founded 75 years ago, right here in Jamestown, North Dakota by a group of farmers and we have since grown to fifteen branches in twelve different communities and close to \$500 million in total assets right now with \$400 million in loans. We have smaller communities of Wishek, Napoleon, Steele, and Milnor those are all communities that have like 800 or less people. And in many cases it is just us and one other financial institution in the entire town.

Thousands of Dakota Farmers, Rural Businesses, and Families Depend on Their Credit Union

(Mike Reismour, CEO/Manager of Dakota Plains Credit Union, Edgeley, ND)

Agricultural lending makes up 50% of our portfolio and that is between agriculture, capital loans, operating loans, and a lot of that is also ag real estate loans – which are very good loans.

(Peter Butterfield, CEO/Manager of Dakota Plains Federal Credit Union, Lemmon, SD)



We help our ag industry, we help our small business, along with our consumer base. We are just short of \$50 million dollars right now, we are about \$47.5 million and we are looking to grow. That's part of it – if you don't grow, you are eventually overwhelmed by the competition.

(Cindy Hegland, CEO of North Star Community Credit Union, Maddock, ND)

We currently have 48% of our portfolio in ag (on) lending which consists of real estate, operating, equipment loans, and storage grain loans.

(Harold Hagen, CEO of Hometown Credit Union, Kulm, ND)

Our agriculture loans make up roughly 80% of our loan portfolio and our loan portfolio is about 90% of our assets. So, you could say that about 70% of our assets are invested directly in agricultural loans.

(Dan Cumbee, President of Dakotaland Federal Credit Union, Huron, SD)

Mortgage Lending comprises of about 40% of our total business and business lending is about 20 to 25% of our total business. We serve a lot of the low income and a lot of moderate income folks. Our average mortgage loan is about \$61,000 is the size of it, so it is very small. We do a lot of small business loans and a lot of people that don't have... that the banks don't really want to serve.

(Steve Schmitz, President/CEO of First Community Credit Union, Jamestown, ND)

Ag is our bread and butter, so to speak. Out of the \$400 million in total loans, that I mentioned earlier, \$160 million are lent directly to farmers for production ag. Then, with the make- up of North Dakota's population, I would say roughly that 60%, maybe 70% of our loans have some type of ag influence in them, like maybe a supplier, or someone who is supporting agriculture in another way.

Dakota Credit Unions Have Concerns With the Proposed Rule

(Mike Reismour, CEO/Manager of Dakota Plains Credit Union, Edgeley, ND)

Really concerned about the methodology in which they come up with it, and that being the 200% on the assessment after the greater than, if you would, in the business lending side of it. That is going to have a detrimental impact on Dakota Plains Credit Union. We are a credit union of \$60 million. We have grown \$16 million in the past two and half years, simply because there was a need for us here and that will have a huge impact on us moving forward simply because of the amount of capital that we're gonna have to create in the same method that we've done over the past 73 years. That's a huge, huge, hurdle for us to get over.

(Peter Butterfield, CEO/Manager of Dakota Plains Federal Credit Union, Lemmon, SD)



My concern is right where we were at year end December 31, 2013, we would pass both tests, but under the new rules, we would pass the secondary capital, the secondary risk-based capital by one tenth of one percent. That's a damn slim margin to feel comfortable about operating and being able to make the decisions that we have to make. My concern is, do we... do we in fact say hey let's hold back this growth and not get to \$50 million dollars. You know that is certainly a business decision, but that has all kinds of implications to it as well and are we serving our members by doing that?

(Cindy Hegland, CEO of North Star Community Credit Union, Maddock, ND)

My concern with this proposed rule is that the ag lenders that we already service – we would then have to pick and choose then going forward – who we are going to do an ag loan for and who we aren't going to do and ag loan for. Seventy-four years of business is what we've done in ag lending, so how do we say now when they walk in the door, “well I'm sorry we can't help you anymore” – you'll have to go to the bank next door or the Farm Credit Services that are mainly our competition. So, it will be a huge impact on us. Look around – it's what we do and it's what we've been good at doing and done low risk lending in the past.

(Harold Hagen, CEO of Hometown Credit Union, Kulm, ND)

Well our primary concern is the higher risk weighting that will be put on us for member business loans - which in our case is all our agricultural loans. Calculations that we've done indicate that we would need an additional \$3 million dollars in capital at this point on top of the almost \$10 million dollars in capital that we already hold. The rest of the concern is that to fund future growth, and we have grown over the last 10 years about \$60 million dollars or an average of \$6 million per year, if that trend continues, we would grow \$30 million in the next five years, roughly \$4.5 million dollars of capital to fund that growth plus the \$3 million to meet the new regulation, that's \$7.5 million of capital in the next five years. That would take every penny of our expected earnings for the next five years - just to fund growth. There would be no funds left over to improve our facilities, to add new technologies for our members, to service the needs of our community.

(Dan Cumbee, President of Dakotaland Federal Credit Union, Huron, SD)

I think the biggest challenge is the really the fact that, you know, as we would maybe grow, we might have to start slowing our growth down in the lending areas and it could reach the point where we are having to curb mortgage lending or business lending, which means that we are going to start turning down loans for people that really need them – especially the loans that are somewhat marginal, where they really don't have the option to get the loan anywhere else. We would have to start potentially curbing that.

(Steve Schmitz, President/CEO of First Community Credit Union, Jamestown, ND)



We have a number of concerns with it, but the primary one is the weighting of business loans. Under the proposed rule, MBL's are weighted anything over 15% of your asset size is weighted at a 150%. So basically, if you do a \$1 million dollar loan, you have to count it as \$1.5 million. And anything over 25% is weighted at 200%. And then they lump all the MBL's into one bucket and call it a concentration. And for our credit union, we are roughly in 60,000 square miles, from the Red River Valley in the east out into the rolling hills west of Bismarck and our loans are geographically diverse, many different types of business loans we do. Again generally \$160 million are ag but we also have \$80 to \$90 million in small businesses, multi-family homes, even within agriculture, we have ag real estate, we have equipment, we have barley loans and barley and wheat out west, we have soy beans and corn in the east, cattle – very wide-ranging types of loans. And then for the risk-based capital proposal, it says they are all one loan basically, one type of loan, so they really hammer us on that. And that's simply not accurate.

How Will the Proposed NCUA Risk Based Capital Rule Impact Rural Dakota CUs and its Members?

(Mike Reinsnour, CEO/Manager of Dakota Plains Credit Union, Edgeley, ND)

To put it in a short way, we, this year, had a father and a son come to us and ask if they could come on board. They had some issues at their prior lender and the son wanted to get in. We had ways of working with our state bank on some programs and we were able to put together a lending package for them, so we could bring those on board. With this new risk-based capital rule, we do not have that opportunity.

(Peter Butterfield, CEO/Manager of Dakota Plains Federal Credit Union, Lemmon, SD)

It would have a severe impact. We deal with...we don't deal with the very large ag lenders – I mean those guys have other means available to them. We deal with the average guy. We deal with the middle market guy. There is not a ready market for them to go to. We take a look at what they do and we work with them. We try to improve their operation over time. So, yeah, the guy with...the big cattle guy – he's got the where with all to go places. He's got options that are available to him. The guys we deal with a lot of the time – they don't.

(Cindy Hegland, CEO of North Star Community Credit Union, Maddock, ND)

They'll have less choices of who they can do their business with. If we have to limit the people who come in our credit union and do our ag lending, then we are sending them off to the competition which we don't feel is the better resource for them.

(Harold Hagen, CEO of Hometown Credit Union, Kulm, ND)

The whole base of all our small town communities, is agriculture. And if were not financing the farmers and ranchers and giving them what they need for their operations, it's going to have a huge impact on the community. I can take communities that don't have active financing for the ag



lenders or agricultural financing either with a bank or a credit union and they suffer. You can see it in the size of the towns, the size of the main street. It's hugely important that we fund our producers and keep them viable.

(Dan Cumbee, President of Dakotaland Federal Credit Union, Huron, SD)

...would create almost a little bit of a credit crunch because certain folks would not be able to get financing anywhere else. A lot of times we do loans in house because we know them and we understand and those folks probably wouldn't have options anywhere else.

(Steve Schmitz, President/CEO of First Community Credit Union, Jamestown, ND)

Our members would be hurt, because, as I mentioned earlier, a lot of these communities we are in have only one other financial institution. If we're currently pulling out of the.. ag lending, they will have to go to the one institution in town. The one place where we really started doing business loans, we were able to get some of the loans away from the local bank because we were priced 2% cheaper. Two percent on a million dollar loan is \$20,000 a year. Now if we are out of that equation, that same loan now, probably goes back up two percent. And farmers, small businesses are borrowing – it takes a lot of money to operate in today's environment. So you are literally could be talking about a lot of money that the consumers are going to have to pay and then also a reduction in services

(Robbie Thompson, President/CEO, Credit Union Association of the Dakotas)

Credit unions in North and South Dakota are safe, sound, secure financial institutions. They didn't take part in the risky lending that caused the financial crisis. They've been lending in agricultural communities and rural communities 75 years. These communities rely upon credit unions for their lending. They give mortgages in these communities. They give small business loans that help out these small communities and they want to continue to do so. So I hope we've given you an opportunity to understand what life is like in North and South Dakota and hear some of the concerns that our rural and agricultural based credit unions have with the NCUA Risk-based Capital proposal. We hope you take them into consideration as you're writing a final rule. We hope that you think about how this would impact these good, strong, communities that are the life blood of rural America. Thank you.

This Video Comment Letter is a production of the Credit Union Association of the Dakotas

Headquartered in Bismarck, ND, The Credit Union Association of the Dakotas (CUAD) is the Professional Trade Association Serves the Financial Cooperative Industry in North Dakota and South Dakota and more than 450,000 Credit Union Members.

Robbie Thompson – Producer

Jeff Olson – Director/ Director of Photography



Contributing Credit Unions

Dakota Plains Credit Union, Edgeley, ND

Dakota Plains Federal Credit Union, Lemmon, SD

North Star Community Credit Union, Maddock, ND

Hometown Credit Union, Ashley, ND

Dakotaland Federal Credit Union, Huron, SD

First Community Credit Union, Jamestown, ND