INNER LAKES
Federal Credit Union

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May 19, 2014

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

Dear Mr. Poliquin:

As the CEO of Inner Lakes FCU I am writing this letter to inform NCUA of concerns I have with its risk-based capital proposal. The proposal shifts too much power to NCUA and uses risk weights that inflate the risk of credit union assets.

In the preamble to the proposal NCUA explains that there have been credit unions that have gone into conservatorship only after ignoring examiner advice. This proposal will implicitly give credit unions less flexibility to manage their businesses and give examiners more authority. Neither outcome is justified. The vast majority of credit unions survived the last five years with adequate capital. In fact the industry now holds more than $1 trillion in member funds. This is not the record of an industry in need of capital reform; it is the record of an industry that has proven that it has the capital and expertise to manage member funds without additional capital regulations.

Inner Lakes is also concerned by NCUA's attempt to require individual credit unions to have more or less capital as they see fit on a case-by-case basis. This arbitrary decision making would be based on several general criteria such as concerns over a credit union's policies and/or procedures or concerns that it may suffer a loss resulting from exposure to a CUSO. NCUA concedes that the decision whether or not to impose tailored capital requirements will be subjective and based on the agency's "expertise." This type of authority means that a credit union could comply with this proposal and still be subject to enhanced oversight.

Another concern is that many of the proposed weightings do not accurately reflect the risk posed by a given investment or loan. For example the proposal would introduce a risk weighting for loans sixty days delinquent. But by limiting the size of ALLL that can be included in a credit union's capital, the proposal already accounts for delinquent loans.

NCUA is also proposing weights for CUSO and corporate capital that would brand these as among the most dangerous of investments. The preamble to the regulation provides no justification of these weightings which are being proposed even though NCUA has imposed tighter regulatory oversight over both CUSOs and corporate credit unions in recent years. NCUA's investment weightings would directly impact Inner Lake which holds some longer term investments in its portfolio. An investment should not be considered riskier just because it is of a certain length.

The proposal has the potential of slowing credit union growth by pressuring credit unions to reduce capital as the quickest way of improving their RBC ratio. If an enhanced RBC system is put in place credit unions will be the only financial institutions operating under an RBC framework without supplemental capital. In Congress, greater access to secondary capital would make it possible for more institutions to comply with RBC requirements and continue to grow.

NCUA officials have indicated a willingness to make substantial changes to this proposal. I hope that NCUA reconsiders the need for imposing this regulation on so many well performing credit unions.

Sincerely,

Travis Heiser
CEO

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