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May 21, 2014

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

RE: Comment NCUA proposed rule: Prompt Corrective Action – Risk Based Capital

I am writing on behalf of East Idaho Credit Union, which operates under both a community charter and an expanded charter based on occupation. We are one of the oldest (founded in 1935) credit unions in Eastern Idaho with over 40 thousand members, 10 branches and $ 256 million in assets. I have worked in the credit union industry for over 24 years beginning as an accounting clerk for the largest credit union in Oregon. I have been employed by three different credit unions in the past 17 years as their CFO. East Idaho Credit Union appreciates the opportunity to provide comments to the National Credit Union Administration on its proposed rule, Prompt Corrective Action – Risk Based Capital.

It is clearly essential that all financial institutions maintain adequate net worth based on aggregate risks on and off the balance sheet, thereby minimizing the risk or threat of loss to the NCUSIF. This risk based capital model is a reasonable effort, but I don't believe one can effectively standardize risk weightings to include all material threats ensuring that each "individual" credit union has adequate capital. Each credit union has a unique risk profile (appropriately so) based on the innumerable dynamics of strategy, demographic, management style and economic predicament and outlook. In my opinion NCUA is attempting to "cookie cutter" credit unions into a tidy mix of investments and loans which will detract from the common mission of providing financial services to every member no matter how diverse. If properly administered, even the most complex institution and instrument can be properly managed.

I ran East Idaho's balance sheet profile through NCUA's Risk Based Net Worth Calculator. At present we have a relatively short investment portfolio duration and plan to extend in a well calculated fashion, we are in the process of improving our 50% loan to share ratio and have just invested in a CUSO. All these changes will make us more profitable and produce a more stable financial strategic plan for the future. We currently would be well capitalized under this proposed plan, but if we implemented these well thought out conservative changes, our capital levels would decline over 200 basis points. The proposed risk based capital model could in fact result in a more unstable financial picture for many credit unions.

The risk percentages appear to be arbitrary and perplexing as to the type of risk that the risk weightings are attempting to measure or control. For example:

- non-delinquent loans are all lumped into the same bucket, so there is no difference between a "D" paper unsecured loan, an "A" paper auto loan and potentially a 30 year fixed rate real estate loan (depending on the percentage of RE to assets).

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- All 1st mortgage loans are placed in the same risk weight regardless of their loan characteristics. Evidently the opposing risks of “payment shock” in ARM loans and the “interest rate risk” in a 30 year mortgage are the same?
- We have just endured the recent recession where all loans, but specifically real estate loans were significantly impacted. If we learned anything it was loans within the same homogenous pools are not created equal. LTV, interest rates, market demographics and internal processes all significantly impacted the collectability and viability of each loan.
- Every credit union I have worked for has had ARM loans on the books. Will this regulation require those loans to be classified in the “other real estate” category and then double the risk weighting? Not an appropriate surprise or acceleration of risk and consequently lowering of capital, in my estimation.
- There are other very similar incongruences in the investment ratings. For example there are no credit risks in treasuries or NGNs, but does that offset interest rate risk on longer terms? Rate shock those investments and they lose value like any other similar termed instrument, but NCUA has rated them with a zero risk weighting.

Another aspect of this proposed rule that gives me significant alarm is NCUA’s ability to subject individual minimum capital requirements over and above the risk weighting system. Essentially these determinations would lend themselves to be highly subjective. For example: does the credit union have poor liquidity or cash flow, are business relationships deteriorating, failure to properly establish what is perceived an appropriate strategic plan, perhaps activities of a CUSO or a plethora of other subjective assessments.

Currently credit unions can pay dividends out of regular reserves without regulatory approval as long as they are adequately capitalized. Under the proposed rule a well-capitalized credit union could only pay dividends if their net worth ratio does not fall below adequately capitalized, unless NCUA approves. This lends itself to undue micro managing of a currently well capitalized credit union.

In conclusion, I am not in favor of this rule as it is written. The NCUA board has indicated in the past many times that if credit unions are to fulfil their mission they need to assess and address the needs of their individual communities where they serve. The risk weightings outlined in this proposal do not, in my opinion, assist credit unions to more effectively manage even the material risks represented on credit union balance sheets. One size does not and should not fit all. Strategically this proposal could significantly restrict many healthy business plans currently in place and stifle future innovative, financially sound decision making.

Sincerely,

Chris Cardwell, CFO
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