United Educational
CREDIT UNION
115 Riverside Drive, Battle Creek, MI 49015

March 21, 2014

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

Re: Comment to the Proposed Prompt Corrective Action – Risk-Based Capital Regulation
RIN 3133-AD77

Dear Mr. Poliquin:

United Educational Credit Union is a state chartered credit union located in Battle Creek, Michigan. We serve persons who live, work, worship, or attend school in the counties of Barry, Branch, Calhoun, Eaton, Hillsdale, Ingham, Jackson, Kalamazoo, and St. Joseph, Michigan. As of March 31, 2014 we were 119 million in assets.

On behalf of United Educational Credit Union, I would like to provide the following official comment letter regarding the NCUA's recently proposed risk-based capital rules.

We respect the NCUA's mission to facilitate the availability of credit union services to all eligible consumers, especially those of modest means through a safe and sound credit union system. We believe that if the proposal is approved as written, it will have serious and unintended consequences to the cooperative credit union system and its membership.

The proposal indicates that the risk weightings assigned to various assets and securities under the proposal are to align credit unions with Corporate Credit Unions and BASEL III for community banks. The risk weightings in the current proposal differ greatly from those of BASEL III. Example:

- Investment securities are risk-weighted under BASEL III based on credit risk. Under your proposed rule, investment securities would be risk-weighted based on average weighted maturity.

- Residential mortgage loans and member business loans are also risk-weighted at a much higher percentage under this proposal than the risk weights for such assets under BASEL III. The BASEL system as applied to smaller banks is concerned almost exclusively with interest rate risk.

The proposal also states that business loans will have a tiered risk weighting system depending on the percentage of assets that these loans represent in the credit union. The banks do not have such a tiered risk weighting system based upon percentage of assets. They address concentration risks through the examination and supervisory process, not the actual risk weight in their capital system. The risk weight should be equal for all business loans.

Credit Unions are currently exposed to examiners subjectivity in assigning CAMEL ratings. They should not be allowed this additional subjectivity to require additional risk based capital above what is proposed in the regulation.

We believe that the CUSO investment risk metric of 250% is excessive especially as compared to other risk ratings. As an example; delinquent consumer debt over sixty days as well as delinquent unsecured credit card debt is risk rated at 150% and delinquent first lien mortgage loans are risk rated at 100%.

The CUSO risk rating of 250% is disproportionate as well. While there are some CUSOs that are designed to return a profit through dividends, many CUSOs provide a return to the credit union owners and members by the reduction of operating costs or fees. This is the CUSO concept; it is credit unions helping credit unions by supporting a cooperative system.

The 250% risk metric for CUSO investment may deter many credit unions from investing. This would have a trickling down effect where without that investment, CUSO’s will no longer be able to provide research and development to expand services to be able to compete in the financial markets. This in turn may cause credit unions that use CUSOs to leave putting pressure on the remaining credit unions, especially the small ones and those that have invested, who believed in this cooperative.

If the proposed rule is adopted it would have a negative consequence on our risk-based weightings, causing our Credit Union to fall from well capitalized in the current system to adequately capitalized in the proposed system.

Our balance sheet has been managed to make our capital work for our members by being able to offer competitive deposit rates, low interest loans and low fees. It has allowed us to reach out into our community to set up programs for our Hispanic/Latino Community, Burmese Community, low-income families, the underserve as well as offering financial literacy programs. We donate money, materials and time to these and other various programs.

As a low income Credit Union, this proposal would impact those efforts to assist our community members who may not be able to obtain financing or accounts else-where. It would drive those members to lenders with substantially higher rates and associated fees.

The proposal is troubling especially if the FASB proposal were to be adopted; it could increase our Credit Union's Allowance for Loan Loss by 50%. The Allowance for Loan Loss could not be maintained below the 1.25% thus limiting or eliminating altogether our outreach efforts.

During the economic downturn our Credit Union maintained our well capitalized level. In 2008, it was 10.49%, dipping down to 8.64%, and as of year-end 2013, it was 9.38%. During this time our Credit Union never experienced a negative ROA. The 7% net worth requirement under the existing rule was sufficient to maintain the credit union industry through the recent financial crisis, and credit unions did not require a taxpayer bailout.

The NCUA's proposal to build upon an artificially high net worth requirement supported by the banks during the passage of the Credit Union Membership Act will only serve to enhance the banking industry's goal of stifling the growth of credit unions for competitive reasons.

While the 7% net worth requirement maybe imperfect, our Credit Union does not object to additional capital requirements for some credit unions if justified by higher risks but the risk levels should be established with historical perspective.

If the NCUA does change the proposed risk levels in a new rule, it is still possible that we remain adequately capitalized as opposed to well capitalized. We are currently evaluating and reassessing our risk based capital and related policies. We are working with our investment professionals and ALM consultants on how we may restructure our balance sheet without having an adverse effect on our members.

In our analysis, it is clear that in the existing low rate interest environment we will be unable to comply with the NCUA's implementation timeline of 12-18 months to become well capitalized. It should be noted that the banks were given a much longer period of time to comply with BASEL III, providing for a transitional period out to 2019. We are encouraging the NCUA to allow our Credit Union along with other credit unions a reasonable and appropriate period of time to improve our risk-based capital ratio.

Finally, we are also encouraging NCUA to accelerate their efforts to implement supplement capital options for all credit unions, in conjunction with the Risk Based Capital Rule implementation. This will provide an important tool for my Credit Union who that will no longer be well capitalized as a result of this rule, and for others that need strategic options to assist them in managing to the new risk based capital standards.

Again, we believe that if the proposal is approved as written, it will have serious and unintended consequences to the cooperative credit union system and its membership.

Thank you for your time and the availability to comment on this proposal.

Sincerely

Fran Godfrey

Fran Godfrey
President/CEO

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