SEVEN SEVENTEEN credit union

Gary Soukenik, President & CEO
3181 Larchmont Ave. NE • Warren, OH 44483 • www.sscu.net
Phone: 330/372-8141 • Fax: 330/372-8310 • email: gsoukenik@sscu.net

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

Dear Mr. Poliquin:

I am writing today to express my concerns with NCUA's proposed risk-based capital (RBC) requirements. Although requiring higher amounts of capital for credit unions involved in riskier operations makes sense conceptually, I find the proposal unnecessary, flawed, inconsistent and illogical.

BACKGROUND – Seven Seventeen Credit Union is a full service, state-chartered, federally insured Credit Union with $810,909,652 in assets, a RBC ratio of 15.14% and a net worth ratio of 11.57% (as of 12/31/13). We operate ten service facilities in northeast Ohio. Under the current proposal, Seven Seventeen Credit Union's cushion over well "capitalized" would shrink by $8,842,738 (i.e., 110 BPs).

IS THE REQUIREMENT NECESSARY? Historically, financial losses at banks have exceeded financial losses at credit unions. This is best demonstrated by comparing the number of failures, insurance fund losses, insurance fund ratios and net worth ratios during the most recent financial crisis, when credit unions demonstrated that the "financial co-op" business model provides for less risk than the for-profit "banking" model.

2008 - 2013		
DESCRIPTION	CREDIT UNIONS/NCUSIF	BANKS/FDIC
Failures	136	489
Insurance Fund losses/$1000 insured (average/year)	$0.18	$0.93
Insurance Fund ratios (lowest)	$1.23	-$0.39
Equity capital ratio (lowest)	9.91% (2009)	9.38% (2008)
Net charge off ratio (average)	**0.90%**	**1.67%**

In spite of these historical statistics and the fact that bank regulators are considering discarding the Basel system and are favoring a leverage ratio, NCUA is proposing a Basel-like requirement. That does not seem logical.

Quotes from FDIC April 8, 2014 Board meeting:

- Chairman Gruenberg: "In my view this final rule (leverage ratio) may be the most significant step we have taken to reduce systemic risk."
- Vice-Chair Hoenig: "The supplementary leverage ratio is a more reliable measure that is simple to calculate, understand and enforce than subjective risk-weighted measures...Experience has shown that relying on a risk-based capital measure serves the public poorly..."

- Board Member Norton: "There is economic research to support the conclusion that the leverage ratio is a statistically significant predictor of banks default while the Basil Tier 1 risk-based capital is not..."

Additionally, the asset weightings proposed by NCUA are greater, far greater in many cases, for credit unions in most asset classes than Basel is for small banks. In fact, where there are differences, the NCUA proposed risk weights exceed bank Basel requirements in all but one category. Given the performance history of credit unions versus banks, this is illogical.

Further, the proposed asset weights ignore balance sheet liabilities, variable rates and asset liability management (ALM). Risk weights for investments seem punitive and inconsistent. They will discourage credit unions from investing in long-term and/or fixed rate investments, even when risk is managed by sound ALM; therefore, forcing credit unions to accept lower returns.

Requiring more capital for credit unions than banks, which have similar asset structures, will place credit unions at a competitive disadvantage, forcing them to increase product costs in order to raise additional capital. Credit unions are already at a competitive disadvantage with their limitations to raise additional capital. Also, as service delivery decisions are made going forward, the proposed capital requirements would discourage credit unions from booking mortgage and member business loans, even when they are needed by their members.

INDIVIDUAL MINIMUM CAPITAL REQUIREMENT (IMCR) - The most disturbing element of the proposal is giving the regulator the ability to set capital requirements in excess of risk-based capital in certain loosely defined (subjective) situations. The lack of objective criteria makes it extremely discretionary and subject to interpretation. Therefore, it could result in abuse by examiners.

SUGGESTIONS
If the proposed regulation can't be retracted, at a minimum, please consider the following:

- Consult with state regulatory agencies
- Extend the transition period
- Change asset weights to equal those in place for small banks
- Allow credit unions to count NCUSIF deposits as an asset
- Increase the allowance for loan and lease losses (ALL) limitation
- Remove the *comprehensive understanding* requirement
- Most importantly, **delete Individual Minimum Capital Ratios (IMCR)**

CONCLUSION – As you can see by my listed concerns, I find the proposed risk-based capital requirements to be extremely intrusive and believe they will be damaging to the cooperative nature of credit unions. As financial cooperatives, our primary focus is service to our members. We understand that safety and soundness provide an essential foundation to us serving our members in a qualitative manner. My fear is that the proposed regulation will force us to focus on the insurer's preferred asset allocation rather than the one which best serves our members. I believe that business strategy and risk management are the responsibilities of our Credit Union's Board and management who know the economics and needs of the communities we serve. The requirement, as proposed, would override their judgment and force them to be focused on complex calculations which change on a daily basis, not on what's best for our members; the owners of this Credit Union.

In my opinion, this type of onerous regulation will, at best, make credit unions like banks (not a good thing). At worst (and more likely) it will make credit unions second-class, financial institutions unable to compete in the financial marketplace and unable to provide excellence in service to their member/owners.

I respectfully request that the proposal be retracted. This one-size-fits-all rule won't manage the risks that credit unions face today; sound management, as has been demonstrated in the past, along with strong, consistent supervision and examination systems will.

Thank you for your consideration.

Sincerely,

Gary Soukenik
President & CEO

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