DuPont Community
CREDIT UNION

May 27, 2014

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428
Re: Comments on Proposed Rule: PCA-Risk-based Capital

Mr. Poliquin,

Thank you for the opportunity to provide comment to the NCUA Board on their recent risk-based capital proposal. My name is Jason Clarke and I serve as Compliance Officer on behalf of the more than 66,000 members of DuPont Community Credit Union (DCCU). DCCU is a state-chartered, federally-insured community credit union serving a six county region in central Virginia. DCCU has been serving our members since 1959 and we are currently the stewards of over $920,000,000 in member assets. Like communities all over the country, our field of membership is diverse, complex, and greatly in need of the broad range of low-cost, high-quality financial products and services we provide.

Other members of our management team have drafted personal letters to you outlining their very real concerns with the financial impact the risk-based capital proposal will have on DCCU operations. I would like to address two other aspects of the proposal that are concerning to me both as a Compliance Officer and a 15 year veteran of the credit union movement.

To begin with, let me state that I agree that a risk-based capital proposal has some merit and that I do not disagree with what appears to be a sincere motive to seek continuous improvement in the already healthy and robust safety and soundness of the credit union movement. However, in my nine years as a regulatory compliance professional I have seen well-intentioned regulator action result in a constriction of products and services to people in our communities that need them the most. This is, by and large, an unintended consequence of a reactive regulatory system. Something goes wrong, financial institutions are negatively affected, and the regulator springs into action to keep the “something” from ever happening again. I’m afraid that this is what we are seeing in the current risk-based capital proposal. At a time when two credit union regulatory relief bills are successfully making their way through Congress, this proposal adds an unnecessary burden to credit unions that are already performing very well.

Can we take a moment and ask “What if our regulatory system was not exclusively reactive?” What if the risk-based capital proposal was a broad, proactive, and enabling guideline instead of a restrictive and prescriptive checklist? What if NCUA examiners were trained and appropriately equipped to make complex and individual judgments about a credit union’s portfolio based not on some formula that must be followed but on a comprehensive analysis of the credit union’s mission, field of membership, strategy and management team? Today’s complex and fluid financial services marketplace and regulatory environment demand a risk management model that places equal emphasis on qualitative and quantitative measurement. As written, the reactive proposal penalizes well-capitalized credit unions by changing the rules in the middle of the game, forcing many to re-evaluate strategies that were well-thought out, considered, tested, stress tested, and tested again. If implemented as written, the proposal has the potential to drastically reduce the effectiveness of credit unions efforts to bring financial products and services to all in their communities. In addition, it will necessarily pull the focus of credit union leadership from other things. From a purely strategic perspective, attention spent unnecessarily managing to an arbitrary capital requirement is attention not spent on very real compliance, risk management, and community development initiatives.

This brings me to my second point of concern. In the early days of the credit union movement in the United States Roy F. Bergengren wrote that "the real job of the credit union is to prove, in modest measure, the practicality of the brotherhood of man". I have the privilege of being closely involved with my credit union's efforts to continue that proof. The purpose of any credit union is to leverage the capital of its members to better serve their fellow members and their community. As a community credit union DCCU takes this responsibility very seriously. We use member capital for vital financial education programs, to keep loan costs down and dividends up, and to bring convenient and cutting edge technology to our broad member base, increasing access to financial products and services that some community members may not otherwise have. Adding severe, one-size-fits-all restrictions to our capital and risk management programs (which, as you will see from any of our past examination reports, are healthy, safe, and sound) may limit our ability to continue to effectively serve our communities, especially those most in need of us: higher risk, low income consumers. As I have mentioned, and as has been mentioned in the comment letters of my colleagues here at DCCU, we are well-capitalized currently (our capital ratio is 10.04%). If the proposal is implemented as written, we will remain well-capitalized, but our cushion over the threshold would be reduced by 70%. It is that cushion that allows us to offer products and services that better the lives of our neediest members, in our poorest communities. What do you suggest we cut to fall in line with your arbitrary and restrictive guidelines? Our financial education series? Our services to small business owners? Our cutting edge online banking platform that allows members in remote areas or with physical restrictions to access the full services of our credit union? Our mortgage products geared toward first time purchasers and those with less than perfect credit? Do we nix plans for branches in low income areas?

My point is that no regulation – including this risk-based capital proposal – should have the intended or unintended consequence of constraining a credit union's achievement of Mr. Bergengren's vision. The real job of credit unions and our regulator is to prove that this grand experiment in co-operative banking is different from the traditional for-profit model. Sometimes that means believing in and trusting the people that make this movement a success. I believe that the risk-based capital proposal, as written, is detrimental to the fundamental mission of credit unions of all sizes and complexity. I urge the Board to revisit their plan, consider providing their examiners with the tools and training necessary to undertake complex and individual analysis of credit union portfolios and operations, and above all, remove the uncertainty that the current proposal will bring to CU boardrooms all over the country.

Thank you for taking the time to consider my comments.

Sincerely,

Jason Clarke
Compliance Officer
DuPont Community Credit Union