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

Re: Comments on Proposed Prompt Corrective Action – Risk Based Capital Regulation

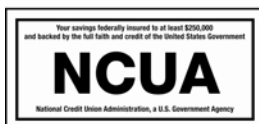
Mr. Poliquin,

Thank you for the opportunity to respond to the proposed risk-based capital regulation. Given the potential impact of this rule, we felt it imperative to comment on the proposal and to express our concern with the implementation of the rule in its current proposed state.

CP Federal Credit Union has been serving its members since 1953. We provide consumer loan and deposit products, including indirect lending and mortgages, business loan and deposit products, and have an investment interest in a CUSO. Specifically, CP Federal Credit Union has always been a credit union with a large concentration of mortgages. It is one of our niches. Many of our operational initiatives could be jeopardized if this proposal is implemented. Simply stated, the risk-based capital proposal stands to negatively impact our members, employees and community and we cannot allow that to happen.

We support the concept that each financial institution should maintain adequate net worth to support its strategy and to manage its risk to ensure there is no threat to the National Credit Union Share Insurance Fund (NCUSIF). However, the level of subjectivity in the proposal causes us great concern. There is no way to effectively standardize risk-weightings to include all material risks due to the fact that each credit union has its own unique risk profile and strategic direction. The subjectivity of this rule will cause well-run credit unions to have to put the brakes on strategically.

Additionally, we do not feel the NCUA has justified the need for the rule. Credit unions prevailed during the trying economic times of the Great Recession. It was evident during that time that credit unions were responsible in their planning and managed their risk effectively to ensure the stability of the credit union industry. The 7% net worth requirement under the existing rule was sufficient to sustain the credit union industry through the recent financial crisis, and credit unions did not require a taxpayer bailout. If credit unions were able to succeed during that time, the need for this rule requires additional explanation that has not been provided. Specifically, the NCUA has not provided appropriate definitions or rationale to support the arbitrary risk weightings for each category.





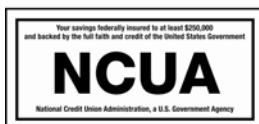
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It seems irresponsible of the NCUA to try to impose a “one-size-fits-all” approach as it relates to risk-based capital. The only way the credit union industry is going to continue to prosper is for examiners to assess each credit union objectively on its own merit using its own risk appetite including all risk mitigation strategies employed by the credit union. Arbitrary risk-weightings for the masses simply won’t cut it. The one-size-fits-all approach is a disservice to the credit union industry that has worked so hard to ensure it is one of significant sustainability and responsibility. Along with the arbitrary risk-weightings, we are concerned with the examiner subjectivity that will be allowed if they feel there is justification to require additional risk based capital above what is proposed in the regulation. This concept simply does not make sense. If the NCUA is going to implement a risk-based capital regulation, there should be concrete requirements credit unions can follow. Examiner subjectivity related to additional risk based capital above a requirement sends mixed messages and sets credit unions up for failure.

While our credit union is currently well-capitalized, it is clear from the rule that many of the areas of business we focus on will be risk rated higher such as mortgages, member business loans and CUSO activities. Additionally, we are looking at implementing a private student loan program. We offer these programs because our membership and community need them. We are committed to making a difference by being a high performance credit union dedicated to our members, employees and community. We want to be the primary choice for our members’ financial needs by providing the best service our members have ever experienced. That vision and mission are made possible by offering mortgages, member business loans, indirect loans and student loans. That vision and mission are made possible by taking some risks, yet managing them effectively. The proposed risk-based capital rule would cloud our vision and block our mission.

The credit union difference of “people helping people” was developed for times such as these. Most credit unions are positioned well to meet the needs of their community by providing the products and services the NCUA has arbitrarily risk-weighted as high risk. The level of investment in member business loans, mortgages and CUSOs seems to be improperly calibrated for credit unions and the current environment we are in. For example, credit unions thrive based on their cooperative nature. CUSOs provide a method of cooperation and collaboration that are critical to their operations. The credit union’s investment in a CUSO not only supports the cooperative but also leads to greater economies of scale and efficiencies which reduces expenses and allows the credit union to provide superior member service. Implementing a rule that essentially discourages investment in a CUSO sends the wrong message.

Another area of concern for us is the prohibition on paying dividend rates that are higher than the prevailing market rates, declaring a non-repetitive dividend, or approving a refund of interest if, after the payment of the dividend or a refund of interest, the credit union’s net





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worth ratio would decline to less than 6 percent in the current quarter. CP Federal Credit Union has historically paid a bonus dividend and interest rebate to our members. While it is not guaranteed, it has become somewhat anticipated and is greatly appreciated. The paying of dividends and rebates is a Board decision and as such should not be limited by regulator action. The cooperative structure of the credit union provides for responsible decision making before any bonus dividend or interest rebate are paid. We see no reason for regulator intervention as it relates to these member benefits.

Finally, the timeline for implementation is quite rapid. Banks were given a much longer period of time to comply with BASEL III, providing for a transitional period out to 2019. It seems irresponsible to implement such a large-scale rule with sweeping changes in such a short amount of time.

In conclusion, we would like to reiterate our support for prudent risk management measures at each credit union. However, regulator intervention that ties the hands of strategic growth of the credit union industry is not effective. Enforcing arbitrary limits could be harmful to the credit union industry and the members served. In addition, authorizing examiners to subjectively add requirements not delineated in the regulation can lead to misuse and abuse of NCUA oversight.

We recommend the NCUA Board abandon the entire proposed rule. We further recommend the NCUA Board continue with the current risk-based net worth requirement structure in place as it has stood the test of time and is suitable for the strategic growth environment credit unions are faced with today.

If you have any questions or would like to discuss this response in further detail, please don't hesitate to contact us at 517-784-7101.

Sincerely,

John Crist, President/CEO  
Ed Konrad, Vice President of Finance  
Chrissy Siders, Vice President of Risk Management/Governmental Affairs

