May 27, 2014

COMMUNITY CREDIT UNION

Gerard Poliquin
Secretary of the Board
NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street
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REFERENCE: RIN 3133-AD77

Mr. Poliquin:

As CEO of the University of Iowa Community Credit Union, headquartered in North Liberty, Iowa, we greatly appreciate the opportunity to provide comments to the National Credit Union Administration ("NCUA") regarding the proposed rule, Prompt Corrective Action – Risk-Based Capital. Our institution is the 2nd largest credit union in Iowa, with total assets of approximately $2.3 billion and 114,000 members.

As the Iowa City-Cedar Rapids corridor continues to expand, there is tremendous demand for lending as evidenced by our growth. While we have always remained at or above an 8% capital-to-assets ratio, our growth has been periodically "interrupted" by the guideline to stay at or above this level. Under the proposed risk-based capital framework, our institution would only be "adequately capitalized" as of March 31, 2014. If we are required by this new rule to hold more capital, there is an immediate concern we will become less able to serve our members' needs (if not actually restrict lending) just because of an "arbitrary number" that has not been specifically designed for our institution. This, in turn, can harm our members and the underlying principles of the credit union movement which is to serve the needs of those members and not to be restrained by unfair capital requirements. This is just one of the flaws we see in the proposed guideline.

Of particular concern with the calculation for our institution are two categories: 1) the off-balance sheet risk-weighting assigned to "Loans sold with recourse" at 75% and 2) the CUSO weighting of 250%. Regarding the former, our liability would never be above 10% for these loans and <u>our historical loss level is under 0.1%</u>! For purposes of illustration, this weighting at 75%, as of March 31, 2014, **adds $244 million of risk-weighted assets to the denominator of our calculation**. If the weighting of 75% remains in force we would certainly benefit from a better understanding of the risks posed to the insurance fund.

With regard to the latter, the weighting of 250% for CUSO activity makes no sense. We have a mortgage subsidiary and also originate member business loans through this CUSO which are no different than those loans that are on the credit union's books. Why should there be such a punitive requirement added when they do not present any additional risk? In addition to the lending activity, we also have an insurance subsidiary in the CUSO. Please explain how this investment should be weighted at 250% as well? Currently, we have a total of $8 million invested in the CUSO which unnecessarily adds $20 million in required capital, arbitrarily applied, under this proposed rule.

Nor do we understand why the amount of money on deposit with the National Credit Union Share Insurance Fund ("NCUSIF") is subtracted from capital and correspondingly subtracted from assets. In doing so, it is not simply just removed from the calculation, but actually serves to decrease an institution's capital ratio. This is merely a cash outlay to the NCUSIF, not an asset that carries any risk. Therefore, the dollar amount should be shown as a 0% risk-weighted asset and not subtracted from capital. This change alone adds 70 basis points to our calculation.

Further, we would agree that a new formula **is** necessary because not all credit unions are alike, nor are their fields of membership. However, without an "in-depth understanding" of the credit union itself and the local economies of the members served, requiring more capital just because certain asset types are on the balance sheet is merely an extension of the current method on a more sophisticated level. In particular, why should a successful credit union with extremely low delinquency be asked to hold more capital just because they have a higher concentration of mortgage loans?? Is there any more risk for those loans over 35% of assets than those under 25%? In our case, if all "non-delinquent" mortgage loans had a risk-weighting of 50%, our risk-based capital calculation improves by forty basis-points.

Of even greater concern is the concept the NCUA can, at their discretion and based on their experience, determine an institution may need to have a higher risk-based capital requirement. This adds a great deal of unwarranted subjectivity. While the details of the rule have not been finalized, we are hopeful that credit is given for those institutions that have been financially successful and more will be required from those who have not, without simply basing the requirement on the complexity of their balance sheet. We believe an intangible should be created to give credit for those institutions who have been very profitable and have also historically shown success in managing a balance sheet containing "higher-risk" assets yet have little or no charge-offs/delinquency. Those institutions with lower levels of profitability and higher delinquency/charge-offs should be required to have a higher risk-based capital ratio.

Thank you for the opportunity to present our concerns and comments on the proposed rule and for considering our viewpoint.

Respectfully submitted,

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