From:	Joseph Moses
To:	_Regulatory Comments
Subject:	Prompt Corrective Action Risk-Based Capital Comment Letter
Date:	Tuesday, May 27, 2014 1:00:53 PM

Dear Secretary of the Board Poliquin,

I am writing on behalf of Down East Credit Union, which serves eight counties within the State of Maine. As of December 2013, the credit union had 16,283 Members, $109.9 million in assets and $10.0 million in capital. Down East Credit Union appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action - Risk-Based Capital.

Down East Credit Union owns and operates two credit union service organizations (CUSO). First being Consolidated Solutions, LLC; a dealership lending company facilitating loan originations for fifteen credit unions and one-hundred and fifteen dealerships throughout the state of Maine. The second CUSO is Consolidated Solutions II, LLC, doing business as Down East Insurance Agency. Down East Insurance Agency has enjoyed a rate of return on equity of 16.0%, 10.7%, 29.3%, 13.0% and 12.7%; for 2013, 2012, 2011, 2010 and 2009 respectively. The favorable rate of return has made it possible for the credit union to afford to reach out and serve more of its membership through various products and services which have enhanced the membership's welfare.

Over the past five years, the credit union's CUSO, Down East Insurance Agency, has acquired three insurance agencies; with its latest acquisition costing $705,629.00 during 2013. At the close of 2013, the credit union had $1.3 million in goodwill and other intangible assets for its second CUSO. Because goodwill and intangible assets are being proposed as high-risk assets, the amount is being deducted from the credit union's capital; therefore reducing its risk-based capital ratio from 12.63% to 10.73% (as of December 2013). This reduced level is only twenty-three basis points above the proposed, well-capitalized level of 10.50%; resulting in the need for the credit union to raise its capital. Problem in doing so, the credit union would have to slow its growth of serving its current membership.

Down East Credit Union lives the mission of serving its members of modest means. For example, the credit union granted loans in the amount of $39.3 million and $36.1 million for 2013 and 2012 respectively. The amount of lending volume is significant based upon the credit unions average loan assets of $76.3 million and $84.1 million for the respective periods. In conjunction with the credit unions favorable capital ratio of 9.1% and its high loan-to- share ratio of 92.9%, the credit union operates its balance sheet with a very low Net Long-Term Asset ratio of 21.09%; compared to its national peers of 35.53%. Credit union's management has properly addressed its risk for future interest-rate increases; ensuring the organization continues to be viable and healthy to fulfill its mission of serving its membership.

Management of Down East Credit Union believes the risk-weighting calculation for the proposed ruling, especially for intangible assets and the NCUSIF deposit, are extremely excessive. The proposed concept is stating intangible assets, such as goodwill, and the credit union's NCUSIF deposits are so risky, that organizations should regard those assets as being completely worthless.

Thank you for the opportunity to comment on this proposed rule and for considering our views on risk based capital requirements.

Sincerely,

Joseph A. Moses
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