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It's friends, family and you!

May 27, 2014

Mr. 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

Dear Mr. Poliquin,

On behalf of Decatur Earthmover Credit Union, our board of directors, and most importantly our members, we appreciate the opportunity to express our concerns with the proposed rule concerning risk based net worth.

We understand the necessity of the NCUA to address capital and the risks different credit union structures pose to the NCUSIF, especially given the events during the economic downturn in 2009. However, we disagree with the proposal as a whole as it fails to take many items into account.

Firstly, the proposal seems to be overreaching. The underlying assumption seems to be that the NCUA knows how to run our business better than our managers and our board of directors. A "cookie-cutter" approach is being applied to all credit unions regardless of size, location, membership and local economy. These are all items we already have to take into account when managing our credit union and our balance sheet. If credit unions had caused a great loss to the share insurance fund we could see the need to make radical changes to our current system. While the economic downturn did cause some credit unions to fail, the vast majority of credit unions survived. Net worth levels at many credit unions did decline, but that is not unexpected. We agree there is a need for guidance from the NCUA and we understand that reasonable restrictions and measures are needed to protect the NCUSIF. However, this proposal seems to go well beyond.

Secondly, the reserve levels on many items appear to be arbitrary and in many cases put credit unions at a disadvantage when compared to banks (and what is required in Basel 3). The variables present in various investments and loan products make setting "one size fits all" reserve levels unreasonable. As an example, a home equity loan made to an "A" tier borrower with a loan-to-value (LTV) of 50% is considered the same risk to the credit union as a "D" tier loan with a LTV of 95%. While both represent risk, obviously the latter should be accounted for at a higher level, but the proposal does not differentiate between the two. Credit unions are currently doing this as part of their Concentration Risk Policies and in the management of our loan portfolios as a whole. The NCUA seems to be disregarding these important variables.

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Below are specific items within the proposal we would like to address:

1. Inequality when compared to Basel 3: Many of the requirements within the proposal exceed what is required of banks in Basel 3. This puts credit unions at a distinct disadvantage and is not supported by the historical losses incurred. At a minimum, the requirements should match Basel 3. Given our low historical losses and conservative nature as an industry, the requirements should be even more favorable. Examples of the disparity:

    a. Investments with a weighted average life exceeding one year: 50-200% in the proposal versus 20% in Basel 3.

    b. Proposed first mortgage reserves (above 25% of assets) is 75-100% versus 50% in Basel 3.

    c. Proposed second mortgage reserve allocations of 100-150% versus 50% in Basel 3.

    d. Proposed Member Business Lending (MBL) reserves of 150-200% versus 100% in Basel 3.

2. The deduction of the NCUSIF deposit from the risked based capital computation is unwarranted given the value to the credit union and absence of risk associated with the deposit. For many credit unions this deposit represents a sizable investment, but by eliminating it from the calculation, the NCUA is in effect saying it has no value to the credit union. The effect to the net worth ratio of credit unions will be negatively affected by the removal of the deposit.

3. While Credit Union Service Organizations (CUSOs) do represent an increased risk, the proposed 250% reserve does not take into account the safety of the CUSO or how the money has been invested. The reserve requirement should take into account the financial stability of the CUSO and their investment structure. Additionally, the unintended consequence of this arbitrary requirement will be to drive more credit unions away from CUSOs to for profit entities, thus lowering the return on value to the credit union and our membership.

4. Examiner subjectivity when setting capital requirements for credit unions needs to be eliminated. Credit unions cannot work in an environment where the expectations are not the same for all institutions and where the operating rules and expectations can change from exam to exam.

5. If higher capital requirements are going to be implemented under the proposed rule, consideration should be given to allow credit unions the ability to raise supplementary capital.

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In summary, the proposed changes to credit union capital requirements are necessary and we support the need to adapt to protect the NCUSIF and our industry. However, we feel the current proposal is overreaching, overly conservative, anti-competitive, and does the credit union more harm than good. The net effect of such a constrictive proposal will be to change credit union's focus on doing what is best for our members and community into what is best for our balance sheet. The constant need to structure our assets based upon these restrictive requirements will reduce the availability of credit to our members and will place an undue burden on credit unions that have historically shown to be model businesses and part of the solution, not part of the problem.

We respectfully request the NCUA would reconsider the changes based upon the input they are receiving from credit unions across the country. An updated proposal, taking the information presented into account, followed by a new comment period should be the plan going forward to address the issue in a way that protects the NCUSIF while limiting the negative effect on credit unions and our members.

Thank you for the opportunity to comment on the proposed rule and for listening to our concerns. Please feel free to contact me with any questions or comments regarding our comments.

Sincerely,

Barry A. Schmidt

Barry A. Schmidt
President
Decatur Earthmover Credit Union

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