May 27, 2014

Mr. Gerard Poliquin
Secretary, NCUA Board
1775 Duke Street
Alexandria, VA 22314-3428

Ref: NCUA Risk-Based Capital Proposed Reg

Dear Mr. Poliquin:

I am writing as the Senior Vice President of Lending at Seven Seventeen Credit Union (SSCU) in regards to the risk-based capital proposal. SSCU is a state-chartered, federally insured credit union located in Ohio. It serves 68,150 members having 42,377 loans, and its loan portfolio includes $198,417,228 in first mortgage loans and $58,908,396 in member business loans (as of December 31, 2013).

Although SSCU has many concerns with NCUA's Risk-Based Capital proposal, as the Chief Lending Officer, this letter will focus on the proposal's impact on the lending function at SSCU and at other credit unions that may be impacted by its approval and implementation. Another primary focus of this letter will be to explain why the proposal is unreasonable, illogical, and unnecessary.

First, it seems extreme to impose risk weights in certain loan categories that are higher than those for banks. Credit unions have consistently outperformed banks in terms of credit quality, yet under the proposal we would experience a greater burden to maintain a well-capitalized status. Banks appear to be moving away from the Basel approach since it was demonstrated during the most recent recession to be less effective than the current credit union model. Yet, credit unions may be forced to comply with a less effective model. Not only does this seem extreme, it will likely make credit unions less competitive.

Secondly, a single risk profile being applied to all credit unions makes as much sense as underwriting all loans based solely on a single credit score that has not been tested or validated. Both of these approaches seem to be exceedingly unfair to the parties having the single standard approach being applied to their individual situations and circumstances.

Additionally, the proposal impedes the ability of credit union boards and management teams to effectively lead and manage their credit unions. The proposed risk ratings limit the discretion of the leadership teams who know and understand their respective communities and how best to manage their credit unions within those communities. The system of allowing management and board of directors to manage their credit unions under the supervision of their regulators has been effective over the years. A single risk profile is not likely to be a more effective means by which to manage a credit union.

Another incongruence is that the proposal attempts to mitigate interest rate risk via risk weightings, yet there is no consideration given to whether mortgage loans, for example, are fixed or variable rate loans. Even though the degree of interest rate risk between the two is significantly different, length of maturity seems to be the key factor being considered when risk rating these loans.

One expected outcome of the proposal is that credit unions will be forced to shift their focus away from serving members to that of building and protecting capital. The growth in mortgages and MBLs over recent years is an indication that the market is recognizing credit unions as a viable alternative to banks. This is an alternative that needs to be protected if the proposal is implemented. Rather than focusing on helping more members, with each mortgage loan and MBL granted, credit unions will have to consider the impact on their RBC position. As credit unions grow their loan portfolios in these categories, the regulatory burden increases disproportionately. Attempting to grow with a focus on risk weightings rather than on the needs of our members is not a sustainable strategy, yet this proposal will force credit unions to shift the central focus of our existence.

Finally, the proposed system increases the financial burden on credit unions for no apparent reason. Based on Seven Seventeen Credit Union's 2013 year-end loan portfolio, the proposed system will require us to commit more than $7.5 million more of our members' funds to increased capital requirements in order to remain well-capitalized. These funds could be earmarked for more productive use including serving members in more meaningful ways. There seems to be no real justification for the increased burden.

For all of the reasons previously mentioned, this proposal appears to be unjustified and counterproductive. We ask that NCUA withdraw or radically modify this proposal.

Sincerely,

Michael Donadio

Michael Donadio
Senior Vice President, Lending