Gas & Electric Credit Union

May 21, 2014

Mr. Gerard Poliquin, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Dear Mr. Poliquin:

I am writing on behalf of Gas & Electric Credit Union to express our deep concerns over the proposed Risk Based Capital requirements as published.

First, let me state that we are currently well-capitalized (10.80%), and will remain well-capitalized under the rules as proposed. We do not currently do any commercial lending, nor have any investment in a CUSO. The proposed rules will therefore have little impact on us in the immediate future, or perhaps even long-term. That does not mean that the proposed amendments are not without serious deficiencies as currently written.

First, we would argue whether these changes are needed at all. In reading through the proposal and many viewpoints from numerous sources, it appears that this is a solution in search of a problem. If we as an industry were able to withstand the most severe financial crisis since the great depression with our current capital structure in place, we would argue that our current structure is sufficient as currently written. Gas & Electric Credit Union was forced write off $383,000 in capital at Members United Corporate FCU, and has incurred another $534,000 in assessments from the NCUA, yet we have been able to build our capital back up, and remain stronger than ever. We recognize the need to hold sufficient capital against potential losses, and make decisions every day to ensure that we have adequate reserves in place and are not taking undue risk that would impair our ability to serve our members. The proposed regulation will do nothing to change that.

If we are to be forced into using a risk-based capital formula, then the risk-weighting applied to several categories appears to be entirely arbitrary, and makes no financial sense as written. For example, Category 6 includes a 125% weighting to all other real estate loans greater than 10% of assets, and Category 7 is 150% weighting for other real estate loans greater than 20%. There is no consideration given to loan to value, interest-rate type (fixed or variable), property type, creditworthiness of the member, or other factors. Low loan to value, variable-rate HELOCs, to high-credit members, have presented very low risk to us historically, even during the past 6 years, and have helped mitigate our interest rate risk. Even with falling home values, we have seen extremely low losses on these loans. To arbitrarily assign a risk-weighting greater than 100% without considering the underwriting or other criteria involved with these loans makes no sense.

Similarly, we already hold reserves against our delinquent loans, and continually monitor and adjust these reserves to make sure they are historically and currently accurate to reflect market conditions. To add a risk-weighting of 150% on delinquent loans, when we are already holding reserves in our allowance accounts, also seems to make no sense.

A 200% weighting for Corporate Credit Union perpetual capital is also concerning. As mentioned previously, we wrote off $383,000 in capital in Members United. When the time came to decide whether to join another Corporate, or recapitalize Members United, we joined Corporate Central Credit Union. Having learned our lesson, we are continually monitoring their financial soundness and capital levels. They are one of the safest corporates in the country, and to penalize our investment with them at a 200% weighting seems again to be arbitrary, with no consideration to the financial condition of the corporate credit union.

While we do not currently have any investment in a CUSO, we cannot understand how this investment should be weighted at 250%. How can we lose 2 ½ times our investment? If we were to decide to participate or start our own CUSO, this regulation as proposed would certainly discourage this consideration. Shouldn't these decisions be made by each individual credit union?

Finally, we take particular issue with two items. First, we cannot understand why our NCUSIF deposit is subtracted from both the numerator and denominator in determining our risk-based net worth. This is a real, tangible asset. Subtracting this from both sides of the equation reduced our risk-based capital from 16.62% to 15.56%, or a decline of 6.37% of capital. Assigning this a 0% risk-based weight would make sense, but not subtracting this altogether. It is not considered equity, and should not be subtracted from net worth as such.

The second item is the ability for individual examiners to seemingly be able to override the formula as proposed (although deeply flawed), and to exercise their own judgment in requiring additional capital, or other changes to supposedly reduce risk. Either we have the same formula for everyone, or we don't. Giving too much power to one individual is always dangerous, and especially using subjective, instead of objective measurements.

It is our recommendation to simply maintain our simple, leverage or net worth ratio as is. It was good enough to see us through the most severe financial crisis since the great depression. We see no need, nor compelling argument, why these changes are needed.

Respectfully,

Daryl E. Empen
President