Cornerstone
Community
Credit Union

May 22, 2014

Mr. Gerard Poliquin
Secretary to the NCUA Board
1175 Duke Street
Alexandria, VA 22314

Dear Mr. Poliquin,

On behalf of Cornerstone Community Credit Union, I would like to offer the following comment letter on the recent NCUA proposed Risk Based Capital rule. We fall into the Small Credit Union base with total assets under $50,000,000 and are not subject to the proposed rule but will reach that level at some point with sustained growth. While our credit union recognizes the need for a well-balanced and credit union specific set of capital standards as an alternative to the current net worth standard, my Board and I strongly oppose the proposed regulation. We do not feel the proposed risk weights accurately reflect the actual risks held on our books and would put us at a competitive disadvantage to our local lending competitors. We need a method that balances the best interests of our members with the safety of their money and recognizes CU's as unique institutions that serve members on a not-for-profit basis. We respectfully address the concerns below and offer possible improvements to the regulation in these specific areas:

Areas of Concern

- Current one-size-fits-all 7% PCA net worth standard still required by law with an additional regulatory standard on top of statutory PCA standard. If a credit union is well capitalized on one standard but not the other, what PCA action takes place?
- No credit is provided for performance in Mortgages or MBL asset categories.
- Performing consumer loans with collateral should have a lower risk weighting than unsecured consumer loans.
- Risk weighting for Mortgage and MBL's totally concentration based – no mitigating factor for LTBV, credit rating, or performance.
- No recognition in risk weighting for different types of CUSO's – type defines the risk parameters.
- Examiner discretion is a major flaw as it will create a subjective goal line that can change and impossible to manage towards by CU management/Board – especially smaller credit unions.
- No additional authorities granted to well capitalized ratios under both net worth and risk based capital, i.e. blanket waivers, fixed asset exceptions, longer exam cycles, etc.
- Credit risk – both negative and positive – along with liquidity and performance of assets are not effectively incorporated. Must protect against more than just the latest crisis.

Phone 515.274.2343 • 800.723.3488 • Fax 515.277.1237
www.conerstonecreditunion.com
414 61st Street Des Moines, Iowa 50312

Suggested Improvements to Rule

- 9% Risk Based Capital Ratio to be well capitalized would be sufficient providing a 200 bps cushion above already established 7% NW ratio.
- Incorporate credit risk performance in MBL's/mortgages – 50bps reduction in each concentration category if CU charge off rate is below 2% 5 yr. Avg.
- CUSO risk weighting should be at 100% vs. 250% as CUSO's promote collaboration and risk sharing, have been largely successful, and risk can be managed through NCUA credit union exams/supervision authority.
- Remove subjective examiner discretion to increase required Risk Based Capital Ratio beyond 10.5%, as that will lead to inconsistent applications and will setup a moving target for CU's to manage towards a set ratio.
- A well-capitalized credit union that exceeds both standards of net worth and risk based capital should receive blanket waiver authority on fixed assets, personal guarantee requirements on business lending, and elongated 18 month examination cycles.
- Delay effective date until January 2019, providing 3 full years for credit unions to strategically plan/adjust balance sheets to the new standard.

CUSO Related Comments

- As a partial owner of a CUSO – Community Business Lenders Service Company, LLC – our $11,000 investment per share is not material to our credit union as it relates to total assets. However the benefits of ownership include discounted fees, priority funding of loans, and training provided to staff and board at no charge. We feel strongly that the risk weighting of 100% for this CUSO is appropriate vs. the proposed 250% risk weighting as the credit union risk is limited to our original investment.
- For FY 2013, our MBL loans were 11.1% of total assets, yet interest income generated from our MBL portfolio was 25.3% of our total income.
- Our CUSO earned more than 30% on Member's Equity in 2013 and paid owners 38% of the net income as a dividend supplementing CU results.

Mr. Poliquin, we are pleased to report that Cornerstone Community Credit Union exceeds both the 7% statutory net worth standard as well as the risk-based capital ratio of 10.5%. However, the proposal could affect future growth of our credit union and indirectly impacts many elements of our strategic growth plans.

Thank you for the opportunity to comment on the NCUA proposed regulation. We support the efforts of the NCUA to pursue a well-balanced risk-based capital system, and with these changes believe it is possible to arm credit unions with a rule that will promote long-term success for the credit union industry.

Respectfully submitted,

Gary Key
CEO