May 19, 2014

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

Dear Mr. Poliquin:

As many of our fellow credit unions have stated, we are very supportive of the creation of a risk based capital measure. The standard capital ratio poorly reflects the needs of the individual credit unions, as the risk varies greatly from institution to institution. However, we feel that the proposed rule, PCA – Risk Based Capital, does not adequately measure the risk as it proposes to, and the proposed rule puts inappropriate constraints on areas of the balance sheet that diminishes the value of the credit union cooperative. We believe that there are fundamental flaws throughout the proposal, but would like to specifically address the following:

- The impact the threshold will have on growth
- The disincentive to lend, and the encouragement to increase fees
- Lack of true interest rate risk measurement
- Escalating concentration weightings and an explanation of risk-weights
- Additional requirements determined by examiners

We ask that the 10.5% threshold be changed because of the implications to the credit union industry as a whole. CUNA's Bill Hampel estimated that credit unions will need an additional $7 billion in capital in order to maintain their current capital cushions. Additionally, it will take a minimum of $800 million just to ensure these credit unions meet the threshold, while for us, the impact is not so great. A mere $75,000 would bring us back to the 10.5% threshold, a threshold that we were above in the 1st two quarters of 2013. If we were to divest assets to meet this threshold, it would result in a divestment of $4 million worth of loans. This divestment of assets is the most likely scenario for most credit unions that have a severe gap between the threshold and their current ratio. Is the purpose of this rule to make credit unions shrink? For credit unions to compete in the financial space with big banks, they must be able to absorb the additional expenses that come with expanding services. For this, they not only need a capital cushion, but they must also be able to grow.

For the University of Illinois Employees Credit Union, not only will we be facing divestment of assets, but also a shutdown of lending to avoid growth. That's perfectly fine and achievable if we no longer want to provide credit to our membership, which is not the case. For our credit union, it

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simply goes against our vision of providing quality financial service. We were one of the few credit unions that continued to lend throughout the recession – just look at how our loan-to-share ratio increased over this time while for most it decreased. This proposed rule will provide a disincentive to lend, and an incentive to raise fees in order to hit this threshold. I'm sure the banking association will love this change as it puts the entire industry at a serious disadvantage.

We also ask that you consider a way to incorporate the liabilities into your calculation. The proposed rule attempts to measure risk, but is severely lacking when it comes to interest rate risk. This too will create an undesired consequence. To quote Jim Collins from a recent article in CU Business, "Glad to know that financing long-term real estate with money market accounts is encouraged." You state in your letter to Bill Cheney of CUNA and Dan Berger of NAFCU that you must take into account all material risks including interest rate risk. How does this proposed rule accomplish that without looking at the liability side of the balance sheet? The simple answer is that it doesn't.

We are also concerned about the risk weightings to give to higher concentration levels of loan types. According to Basel III, the American Banking Association does not have a tiered risk structure for greater concentration levels. How did the NCUA arrive at the escalating risk weights when the Basel rules do not incorporate this? For the industry's edification and in order for you to gain support, it would be a welcomed gesture if detailed explanations were given of each risk weight's derivation. Many of the risk weights appear to be a best guess, especially when they differ so much from Basel rules.

Our final concern is related to the examiners ability to impose additional capital requirements. It is very disconcerting to know that the current threshold is not enough. The proposed rule and thresholds should be of an objective nature, and this truly isn't. In order for this rule to be reasonable, there must be an appeal process for credit unions that disagree with additional capital requirements.

We are glad to see that you are taking the initial steps towards developing a method that evaluates risk for credit unions in a uniform manner. We just hope that you reconsider your currently proposed rule as it will not achieve the desired effect. The failures of a very few credit unions should not be the impetus to create such a constraining rule that limits the growth and success of the credit union industry.

Sincerely,

Ryan Fisher

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