

**From:** [Jessica Hillborg](#)  
**To:** [Regulatory Comments](#)  
**Subject:** Jessica Hillborg- Comments on Proposed Rule: PCA- Risk-Based Capital  
**Date:** Wednesday, May 28, 2014 8:00:36 AM

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Dear Mr. Poliquin,

Today, I am writing on behalf of Frankenmuth Credit Union to express my concern over the NCUA's risk based capital (RBC) proposal approved by the NCUA Board in January 2014. While I understand that it is necessary and important to have strong capital, I believe that the approach taken through this proposal is off-base. Risk is an important part of our credit union- not necessarily avoiding it, but managing it. We appreciate the opportunity to provide our thoughts on this rule and hope you will consider our comments as you move forward in the rulemaking process.

Under the new proposed system, our credit union would remain well capitalized, but our cushion would shrink by over \$4,000,000 (if the proposal were to be in effect today). Our current cushion over well capitalized is equal to 426 basis points on total assets. However, we should see that shrink to 280 basis points on total assets under the new rule, causing a negative 146 basis point change. This is a significant change that will have a major impact on our operations and investments in the future.

This proposal also concerns me because I am part of a credit union that uses multiple Credit Union Service Organizations. It will discourage credit unions from investing in CUSOs, which have provided credit unions with extensive benefits including patronage dividends returns and reduced expenses as a result of cooperative bargaining on technology. Placing such heavy-handed regulation will undermine the cooperative principles that credit unions hold dear as the true differentiator in the industry.

The provision where an examiner can subjectively increase a credit union's capital requirements above the 10.50% of risk-based assets (considered well-capitalized in the proposal) is of great concern to our credit union. As a credit union leader, we need to have a set line that is unmovable. How are we supposed to effectively manage our capital if there is a chance that the requirement could change? I feel as though this section of the proposal would cause problems not only for credit unions, but for the agency as well. To give the examiners the authority to modify the capital requirements will only cause appeals to the NCUA Board and potentially legal actions.

Our credit union recently received the Low Income Designation. We are concerned that this proposal will negatively impact our attempt to assist those in our communities who are not able to get financing elsewhere. This would be a detriment for those potential low income members because they may be driven to become members or borrow funds from lenders with higher rates and fees.

When this rule is finalized, I urge you to give a longer implementation time than the proposed 18 months. Under Basel III, banks were given a nine year time period for implementation. Credit unions need additional time to ensure compliance with these new rules.

We greatly appreciate the opportunity to comment on this proposed regulation. We support the NCUA's efforts to create a balanced risk-based capital system that looks at higher risk credit unions to require additional capital, yet rewards credit unions with proven risk management. We respectfully encourage NCUA to consider recommendations and improvements that will fix the current proposal. If I can be a source of further information on this comment letter, please do not hesitate to contact me.

Regards,

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