From:	Jay Johnson
To:	_Regulatory Comments
Subject:	Comment on Proposed PCA-Risk-Based Capital Regulation
Date:	Wednesday, May 28, 2014 1:46:16 PM
Attachments:	creditrisk.png

Mr. Poliquin,

As a member of two credit unions, I am writing because of my concern about the proposed risk-based capital rule.

As background, I have spent the last 25 years as a professional working with credit unions. While attaining my MBA and CFA charter, I was employed in the banking industry but returned to the credit union movement because of the opportunities and values I experienced before graduate school.

My work with credit unions has included analyzing industry trends and developing software tools that empower any credit union to compare its performance with any other credit union or group. I have also been involved in numerous strategic planning sessions in which boards and management teams consider the broader environment as well as their particular member needs in developing their business plans.

In addition to working directly with credit unions throughout the country, I have presented on financial analysis and business planning at three of the four CUNA management schools. The coursework at these schools is designed to prepare rising middle managers for senior credit union positions.

My concern with the proposed rule is that it imposes a single national formula for risk weighting assets. This approach is contrary to the experience and practice I have seen in my work with credit unions. A major advantage of the cooperative model is management's knowledge of their members, their ability to track local trends, and their experience through multiple economic cycles as they make their reserving and capital decisions. Credit unions are skilled and expert at making assessments about the relative risks of all kinds of lending programs as well as other investments in various assets. They do this based on their local conditions, business strategy and member needs. This means that what works for one credit union's financial approach would not fit another's. One-size formulas do not fit all situations and circumstances.

The best example of the irrelevance and even danger in the proposed approach is demonstrated in the attached map showing the distribution of consumer credit scores throughout the U.S. Obviously some parts of the country and economy are higher risk than others. Using a single .75% risk weighting of all consumer, auto and credit card loans would mislead managers, boards, members and examiners about the nature and sufficiency of the reserving process.

I strongly urge that this rule be withdrawn. Instead of a rule, this kind of analysis can be a tool for examiners to use as an element in their independent assessments of credit unions' decisions. This would follow the exam process used today for identifying potential issues in, for example, interest rate risk.

Thank you for the opportunity to comment.

Sincerely,

Jay Johnson