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May 28, 2014

Mr. Gerard Poliquin
Secretary to the NCUA Board
1775 Duke Street
Alexandria, VA 22314

Dear Mr. Poliquin:

On behalf of Michigan First Credit Union, I would like to provide the following comment letter for the record regarding the National Credit Union Administration (NCUA) proposed risk based capital rule approved by the NCUA Board in January 2014. We very much appreciate the opportunity to provide our thoughts on this very far reaching regulatory proposal and to express some of our concerns about the proposed rule and its potential negative impact on credit unions if finalized in its current form.

The biggest problem we have, among many, with the proposed risk-based capital system is that it takes a well-defined statutory net worth requirement – albeit a flawed and arbitrary "one size fits all" ratio of 7% to be considered well capitalized - under Prompt Corrective Action and adds to it a second regulatory capital ratio calculated at 10.5% of at risk assets without clearly establishing which requirement is the dominant one for credit unions to manage.

Is it the statutory requirement established by Congress in 1998 or the risk-based requirement being proposed now by NCUA in 2014? And, if the answer is both, how does that reconcile with the Prompt Corrective Action requirements (and what corrective action is required) if a credit union's capital falls below 10.5% of risk assets but is well above 7% net worth of total assets.

Credit unions need to know clearly what the capital requirements are that they must manage to. This proposed rule leaves this pivotal management question up in the air.

When the even most questionable and un-stabilizing provision of the proposed rule allowing examiners to add additional capital requirements on a subjective basis to the risk-based cap is added to the uncertainty regarding how the statutory net worth requirement and the risk-based capital regulation, this proposal actually serves to make a credit union's most important safety and soundness question – the proper amount of capital reserves needed to manage its institutional balance sheet risk – murky and virtually impossible to manage. In our view, this proposal serves to make the credit union capital structure totally unwieldy and ineffective.

We also have serious concerns about what appear to be the arbitrary assignment of risk weights to several categories of credit union assets.

For example, the removal of goodwill is totally inconsistent with GAAP. The exclusion of the National Credit Union Share Insurance Fund deposit seems to be a capitulation to the banking industry's political arguments more so than a history of balance sheet treatment by NCUA itself. We see no justification for either provision and feel that the disregard of both GAAP and the historical treatment of the NCUSIF deposit by NCUA only add further lack of clarity to the credit union capital structure.

In addition, we see the failure to provide any compensating mitigation of the risk factors assigned to mortgage loans and especially to business loans based upon historical proven performance in managing such loans as perhaps the most serious flaw with the proposed rule. In a stated attempt to remove the "one size fits all" nature of the current statute and regulation, NCUA has now proposed to bring the same type of "one size fits all" approach to these two key areas of credit union lending.

Let's look at business lending for example. Regardless of how well a credit union has managed the risk in a business lending portfolio and regardless of how small the historical losses may be in that portfolio, the risk weighted calculations of all non-delinquent performing business loans ranges from $1.00 to $2.00 per dollar of loan value – depending upon how many business loans are in portfolio.

In other words, those credit unions that have complied fully for a number of years with NCUA's very demanding business lending regulations, received high marks in all examinations, built a performing portfolio with expertise in its management and added necessary earnings for the credit union through diversified lending are treated with the same punitive risk weighting as a credit union that began its business lending program in the past several years with growth beyond its ability to manage and recurring supervisory issues. Frankly, that makes little sense for either credit unions or NCUA.

Another area of concern is what seems to be the latest in a recent series of actions to NCUA to deter and prevent the collaborative value of credit union investment in Credit Union Service Organizations (CUSOs). When coupled with the 2013 CUSO regulation finalized by the NCUA Board which will certainly have a chilling effect on CUSO investment, the risk weighting of CUSO investments at $2.50 for every dollar of investment is simply over the top.

We read the recent CUSO regulation to be based on the need for additional reporting from credit unions about their CUSOs because the agency did not have enough information on these entities to determine what the actual risk to credit unions might be. Now, only three months later, we have a proposed rule that has somehow magically determined the risk to be two and a half times what an investment in a non-federally insured guaranteed student loan would be. Our question, based upon the NCUA justification for the new CUSO reporting rule, is – based upon what?

CUSOs are allowed for credit union investment by statute and by regulation. They are a proven effective means of collaborative risk sharing and earnings growth in an extremely low margin environment for interest rate related products. To effectively state a regulatory preference that NCUA does not want to see credit unions utilizing the CUSO option is counter-productive to the very reason this risk based capital rule was proposed – to promote the building of essential capital and to better manage the risk on credit union balance sheets *vis a vis* that capital.

It would seem to us that NCUA should be encouraging the risk sharing CUSO model, rather than what appears to be a concerted effort to kill the CUSO option for credit unions. As a regulator, NCUA should always keep in mind – again as the agency attempts to fix "one size fits all" approaches – that a very small handful of CUSO losses does not mean that the literally hundreds of other CUSOs are not producing impressive returns for their credit union owners, providing collaborative solutions to other credit unions within the industry and furthering a risk sharing option that should be promoted by a far sighted regulatory agency.

We believe that the maximum risk weighting for CUSO investments should be $1.00 for every dollar of investment, and probably less than that. The risk based capital system should not be the mechanism for regulating to the exception that is a poorly performing CUSO. The supervisory exam process should be that mechanism.

Finally, we believe that the risk weighing for longer-term investment securities discourages strong balance sheet risk management by significantly penalizing investment portfolios that are not being prepared for a rising rate scenario. The proposed weightings would result in a reduced ability to manage overall balance sheet risks.

In closing, we are not convinced that this proposed rule in its current form improves the capital system for credit unions in any significant way from a safety and soundness perspective. It does however further perpetuate a "one size fits all" regulatory approach that is restrictive, punitive and arbitrary to credit unions as they seek to build necessary capital through effective management of their balance sheet risk.

We encourage NCUA to withdraw this proposed rule until it can be backed with additional supporting data for the risk weights assigned to various assets categories and made more consistent with both GAAP and current risk management best practices by the inclusion of credits for proven risk management performance. We further request that once that is done, that credit unions will again have a chance to comment on the new and revised proposals.

Thank you very much for the opportunity to comment on this proposed regulation. If I can be a source of any further information on this comment letter, please do not hesitate to contact me.

Sincerely,

Michael D Poulos

Michael D. Poulos
President/CEO