May 28, 2014

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314

RE: Commentary on Proposed Prompt Corrective Action- Risk-Based Capital Regulation

I would like to acknowledge the Board's efforts to address the risk assessment and mitigation needs of the credit union industry especially given the unprecedented increase in complexity and uncertainty all market participants currently face. Further, I would like to thank the Board for both the opportunity to respond to the proposed rule and the transparency and genuine effort to "get it right" for the members, credit unions and the Share Insurance Fund.

I currently serve as the President and CEO of SEFCU, recently completing my 26th year of service to our members and communities throughout upstate New York. I began my career at SEFCU as the controller, quickly advanced through the financial ranks and ultimately was promoted to my current position. During that time, SEFCU progressed from a $190 million, virtually insolvent institution to one of the top 50 credit unions in most categories of size. We have maintained a well-capitalized PCA status but have employed a risk-based capital measurement program adapted from Basle I and Basle II some 20 years ago, following it consistently since inception. It is with all due respect and recognition of the Board's ultimate rule making authority that I make the following direct comments relative to the current proposal.

The current proposal as drafted not only will not achieve the stated objectives noted in the same but will effectively interject even more risk and complexity into an already overburdened system. The attempt to make a "once size fits all" system to provide a singular measure of dynamic and multi-faceted institutions with assets ranging from $50 million to $50 billion is not only unnecessary but so technically flawed that it violates the "do no harm" doctrine. There can be no quantitative substitute for a comprehensive enterprise risk management system and the complimentary examination process to validate and test the same.

Having read many of the comment letters from industry participants already submitted, I am not going to detail the technical flaws in the arbitrary risk ratings, lack of comprehensive balance sheet view, inadequate interest rate risk inclusion and incompatibility with existing capital measurement systems of other regulated entities. I would incorporate by reference the letters of CUNA, NAFCU, c.myers to name just a few as good examples of those that detail the technical issues with the proposal in the current form. I would however add emphasis to the widely endorsed industry message that discretion at the individual examiner level is a troubling concept given the issues of consistency in exam practices that exist today.

As noted in my opening, I applaud the Board in their desire to address the issues of capital adequacy given the one-dimensional and dated PCA system currently in place. The PCA system, in its simplicity, provides a false sense of security for the (risk-based) undercapitalized while adding unnecessary business constraints to the (risk-based) well capitalized. A simple example illustrates the point – Two credit unions both at $1 billion with credit unions A and B at 10% and 7% capital respectively. Credit union A has a 100% loan to share ratio with only unsecured loans while credit union B has a 50% loan to share ratio with high grade well performing secured loans and the remainder of the assets in short term U.S treasury securities. Which credit union presents a higher risk to their members and the share insurance fund? Further, credit union B is unable to grow organically or through merger without dropping below the well-capitalized category.

While I recognize that any change to the current system requires legislative action, my strong recommendation is to pursue just that with both a supplemental capital program and a true risk-based capital system that uses as it's base, that agreed to in the Basle II Accord with amendment for the specifics of the credit union environment and the appropriate enhanced provisions of Basle III. Further, I respectfully suggest a regulatory recognition of the significant differences in both size and complexity of credit union industry participants. The risks and resultant capital allocations for a $100 million credit union simply are not the same as those of a $1 billion institution. The various elements of risk can be identified, quantified and provided for with amounts of capital that recognize the managerial trade-offs and mitigants required to effectively run a credit union in today's environment.

The ultimate proposal would be a product of a collaborative and iterative process that would include representation of all industry participants and outside experts with more than ample time for modeling, commentary and final revisions. The final system should provide for known and consistent managerial decision-making such that the capital charges of those decisions are know and agreed to at inception. The new system should not drive the business decisions of credit unions but rather measure their collective impact to a reasonable standard. The "concentration-based" risk weights in the current proposal direct business decisions as opposed to providing boundaries and alternatives needed to serve our members.

The work of the NCUA Board and staff to date has done an effective job of galvanizing the industry around the need to modernize our system of regulatory capital management. Further, spirited conversation has raised the awareness of key decision makers in Washington that the time is now for true and effective capital reform. When more than 300 legislators agree on the importance of reform, it creates an unusual but critically important opportunity for true and meaningful change. It is my passionate recommendation that we seize this moment, table the current proposal and pursue a system that will facilitate the "safe and sound" growth and provision of service to our ever-growing potential market.

Respectfully submitted,

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