MICHIGAN TECH EMPLOYEES
FEDERAL CREDIT UNION

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May 28, 2014

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

Reference: RIN 3133-AD77

Dear Mr. Poliquin:

As the Manager of Accounting and Finance for a $60 million Credit Union in Michigan's Upper Peninsula, I am writing to express my concerns with the NCUA's Risk Based Capital Proposal and to highlight the adverse impact it will have on our members. Specifically, as one of 7 Credit Unions in Michigan who's designation will fall from "Well Capitalized" to "Adequately Capitalized" under the proposed rule, my level of concern is high. In all aspects, our Credit Union is very strong and particularly with regard to asset quality. We boast a charged-off loan ratio of 0.01% and a delinquent loan ratio of 0.39%; both are significantly below industry averages because of the pride we take in assembling a strong balance sheet. Our ability to know our members' risk profile, makes us entirely confident in the ability of our current capital position to safeguard their interests and I do not feel these additional requirements are prudent or in the best interest of our members.

The NCUA is certainly correct in taking the initiative to emphasize the importance of adequately mitigating solvency risk by assessing net worth with respect to the inherent risks associated with a Credit Unions asset-liability mixture; however, the current proposal is far from perfect and places Credit Unions like ours at a severe competitive disadvantage in the industry. The requirements set forth for Credit Unions under the rule are far more restrictive than the burden placed on banks by the OCC and Federal Reserve Board under Basel III, and that does not favor the advancement and success of Credit Unions as NCUA should support.

In an era where traditional Credit Unions like ours are being challenged by the big banks to justify long lived tax exempt statuses, offer increasingly advanced technologies to members, and survive an increasingly complex and ever-changing regulatory environment, small Credit Unions like mine are disproportionately disadvantaged. With net interest margins squeezed from the financial crisis and large regulatory assessments being imposed, every Credit Union in the United States has been challenged to weigh capital growth against returning value to their members. While not all Credit Unions have been perfect in this regard, I can't see how additional regulatory oversight and subjectivity will help improve the situation for all.

From a conceptual standpoint, concentration limits and tiered risk weighting systems provide undue influence on management's ability to properly diversify investment and loan portfolios. Placing favorable weights on shorter term investments for example discourage investment officers from adequately exposing the Credit Union to a well balanced mix of maturity structures. These sort of arbitrary tiers do not guarantee reduce risks, and the negative impacts of unintended consequences like these could be huge under the proposed rule.

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I certainly understand the need to place community banks and Credit Unions under a similar degree of scrutiny to ensure the safety and soundness of federally backed industry-funded deposit insurance funds. Transparency is good for our members and good for the economy. However, in many ways the risk weighting banks face under Basel III and those under the NCUA's proposed rule for Credit Unions couldn't be farther apart. In specific areas, the risk capital requirement for Credit Unions can be up to twice as high. That's plain and simple, bad for business and bad for our members.

Also, while banks have been given 5+ years to restructure their balance sheets to comply with BASEL, Credit Unions are only being given only 18 months adapt for this new rule. In an industry where capital is raised by retained earnings, many Credit Unions will be forced to contract in order to dramatically raise their ratios. Raising net income in today's low rate environment will require us to credit more costly, lower the level of member service, and pay even lower dividends; all of these come right out of our business model's value proposition. That is not good for our members, the Credit Union's long term profitability, or the industry as a whole; to put our Credit Unions and those like us in that position is simply unfair and ill-advised.

Finally, let me remind those concerned that the current level of 7% net worth requirement was sufficient to protect the Credit Union industry from the most significant economic downturn since the Great Depression; one certainly not caused by Credit Unions, and one not requiring the bailout of the Credit Union industry. Why then must the NCUA hold Credit Unions the most stringent capital standards, even more so than the OCC or Federal Reserve?

For years, Credit Unions have demonstrated strong risk management abilities by understanding their members, and the competitive advantages in that arena when compared to banks is clear. Credit Unions know what is best for their members, and have demonstrated that for years, so why interfere to a greater degree?

If federal regulators seek to level the playing field, then they ought to do so fairly and in a manner that does not disadvantage small Credit Unions. I support any Risk Based Capital Proposal which does not place additional stresses on our members and others who benefit from Credit Unions across our country. Our members have already paid the price recently from a weak economy; it is absurd to suggest they do so even more. I urge the NCUA to strongly reconsider this rule.

In summary, please consider making the following revisions among many others:

- Reduce thresholds for "well capitalized" to 7.0% and 9.5% (from 8.0% and 10.5% as proposed);
- Reduce risk weights on longer term assets to more appropriate levels, using Basel III as guidance, to allow proper investment diversification and the extension of real estate loans;
- Remove discretion of NCUA to impose higher RBC on case by case basis;
- Adjust the transition period to 36 months.

Sincerely,

Eli Karttunen
Manager of Accounting and Finance
Michigan Tech Employees FCU