ASSOCIATION of VERMONT CREDIT UNIONS

May 28, 2014

Gerald Poliquin, Secretary to the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Dear Mr. Poliquin,

I am writing on behalf of Association of Vermont Credit Unions to provide comment regarding the National Credit Union Administration proposed Risk-Based-Capital rule. The volume of comment letters from within the industry, as well as current and past members of Congress, speaks volumes to the potentially broad and concerning impact of such a proposal on United States credit unions. I am sure my thoughts are redundant with those of many others, but allow me to offer a few thoughts none-the-less on an issue of major importance to the future of credit unions.

Proportionally, Vermont credit unions will feel significant effects of the Risk-Based Capital rule as currently proposed. One-third of Vermont credit unions exceed $50 million in assets and are therefore directly affected by the Risk-Based-Capital proposal Another 17% of Vermont credit unions will approach the threshold in the very near future. Based on membership, assets, services and location these credit unions are at the heart of cooperative financial services to the 53% of Vermonters who count on credit unions for better rates, fees and service than available elsewhere.

As proposed, over 12% of Vermont credit unions would have their capital position fall from well capitalized to the adequately capitalized category, while none would better their position.

Although the concept of risk-weighting capital requirements is to require safety measures from credit unions in proportion to the amount of risk they undertake, the current proposal penalizes credit unions that in no reasonable way place the insurance fund in jeopardy. Meanwhile, it leaves the door open for broad examiner interpretation of appropriate capital requirements for any given credit union.

Allow me to elaborate on only a few of the numerous concerns I've heard from credit unions and others about this proposal:

- The broad-brush weighting of CUSO investments by credit unions at 250% is excessive to apply to all situations, especially given that many credit unions of all sizes rely on CUSOs for basic services critical to their credit union operations and on which they have come to rely. Such a high level of weighting will only serve to stifle innovation and cooperation among credit unions.

AMERICA'S CREDIT UNIONS®

401 Water Tower Circle
Suite 301
Colchester, Vermont 05446

Telephone 802-863-7848
Fax 802-864-4391

www.vermontcreditunions.com
www.facebook.com/VTcreditunions

- Likewise, other individual risk weightings in the proposal, such as those for member business loans and mortgage concentrations do not appear to reflect the inherent lower degree of risk among credit unions in these types of portfolios than in banks, yet NCUA's proposed weightings in these areas far exceed those imposed on banks. The Federal Credit Union Act mandates that NCUA take the unique cooperative structure of credit unions into consideration in its actions but such higher risk weightings incent credit unions to go against their intended nature of maximizing benefit to members.

- The time for banks to comply with Basel III requirements when first introduced was, reportedly, nine years. By contrast, an eighteen-month implementation period for NCUA's proposed rule seems unacceptably short for credit unions to adequately develop strategies and adjust balance sheets to attain the heightened capital requirements imposed by the proposed rule.

- As mentioned, the rule opens the door for broad latitude by NCUA examiners to further impose additional risk-based capital requirements beyond what is defined by the rule. By contrast, capital requirements should be well defined for continuity within, and among all credit unions across the country, and clearly understood by their boards and management.

- Some have questioned NCUA's authority for creation of this rule as proposed. The Federal Credit Union Act mandates NCUA to define complex credit unions and set corresponding risk-based net worth requirements. However, the Act specifically references "adequately capitalized" as NCUA's limit of authority in determining appropriate risk-based net worth requirements. NCUA's current proposal, however, goes further in its setting of risk-based net worth requirements for "well-capitalized" credit unions.

I understand the motivation for a risk-based capital rule of some sort, which ultimately safeguards the insurance fund. As proposed, however, I feel it will negatively affect the viability and creativity of many credit unions to provide needed financial services to their members. The proposed rule incents credit unions to focus on risk-aversion rather than risk-management, and serves to encourage them to seek higher levels of net income at the expense of members.

What our economy and consumers need, by contrast, is more of the creative, risk-managed services for which cooperative credit unions have come to be known. I urge careful consideration of the comments you've received that echo widespread industry concern regarding implementation of the Risk-Based Capital proposal as put forth, and even whether any rule such rule is truly needed at this time.

Sincerely,

Joseph G. Bergeron

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President