UNITY CATHOLIC FEDERAL CREDIT UNION

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May 28, 2014

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke St.
Alexandria, VA 22314-3428

Dear Secretary Poliquin

I am the CEO of Unity Catholic Federal Credit Union (UCFCU) #4966, a federally chartered credit union located in Parma OH serving over 11,000 members. The majority of the members are parishioners of Catholic Churches in the Cleveland Catholic Diocese.

Thank you for the opportunity to comment on NCUA's proposed regulation concerning Risk Based Capital. The overall the concept of risk based capital does makes sense, but there are many serious problems with this proposal.

First of all, is this proposal really necessary? Why at the end of the recession would credit unions need a stricter capital structure? The FDIC just approved a simple leverage ratio to improve capital adequacy standards at the same time you are proposing a risk based proposal that did not fare very well in the 2008 recession for banks. Banks stopped lending during the recession while credit unions continued to lend money to its members and there were more bank failures than credit union failures during this time period -the institution failures from 2008 -2013 averaged 23.5 for credit unions versus 81.5 for banks. For the NCUSIF, there was only one year of assessments for credit unions due to losses and this was mainly due to the fraud and examiner error with St. Paul Croatian FCU – which showed all share secured loans on their balance sheet. The last 3 years the NCUSIF was overfunded. And even now credit unions – 6 years after the 2008 recession have an average of 10.78% net capital.

Secondly, Is NCUA considering the unique structure of credit unions with this proposal? Part of the Federal Credit Union Act says that while NCUA is required to adopt a rule similar to that available for the banking industry it needs to take into consideration the unique structure of credit unions. The requirements are more stringent than community banks. The rule would force credit unions to hold more capital against routine assets, even though there is no evidence credit union assets have been all that risky in the first place. There would definitely be an impact on members - credit unions will have higher fees, lower dividend rates, higher lending costs, and fewer product/service options.

Reading the 5 goals for the new risk-based capital requirement for complex credit unions I noticed that one of the goals was to rely primarily on data already collected on the call report to minimize additional record keeping burdens. Then under section C – impact of the proposed regulation is states that existing data available to NCUA including Call Report data does not contain all of the information required to analyze the impact of every aspect of the proposal. This implies that the proposed new requirement will add more regulatory burden for credit unions.

In the proposed Risk-Based Capital Numerator, the NCUSIF deposit should not be deducted. The NCUSIF deposit is a very low risk asset.

In the proposed Risk-Based Capital Denominator Uninsured shares should not be excluded. The NCUSIF is not responsible for uninsured shares.

Investments – The rule shows a bias towards lending and against investments. Our credit union traditionally has had a loan to share ratio below 50%. Even though we are aggressively trying to increase this ratio it has proven to be very difficult during this economic period and in our area. We hold many agency investments. Agency securities are explicitly backed by the full faith and credit of the US government. Basel III for Banks <$15B used 20% for Securities Guaranteed by US Govt Sponsored agencies with weighted life for all lengths of time. Your proposal shows a range of 20% for under a year but up to 150% with a weighted average life of 5-10 years. An alternative risk-weight system for investments that doesn't penalize credit unions for investments with over a year maturity is preferred over the proposed rule.

Member Business Loans – This is an area the credit union is currently looking at expanding due to members wants and needs. The impact of this proposal was tested adding our maximum concentration of MBLs over a 5 year growth period. This potentially changed our risk based capital from well-capitalized to adequately capitalized.

CUSO investments – CUSO's have allowed credit unions to provide cooperative based solutions in many areas allowing credit unions the opportunity to provide products and services at lower cost and competitive prices or to save money on back office services. This proposal risk weights CUSO investments at 250% which will slow the growth of CUSOs and which has had a very positive affect for credit unions. Loss exposure to credit unions is limited to the amount invested or lent to CUSOs by definition.

Another troubling aspect of this proposal is that NCUA at its sole discretion may set a different capital requirement for individual credit unions as a result of their examination process. This would give examiners the power to subject a credit union to different standards than all other credit unions. Subjectivity should be eliminated.

If this rule is implemented, 18 months is unreasonably short. Banks have had up to 9 years to fully implement Basel III.

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Risk based capital does make sense and Unity Catholic FCU supports the overall objective of ensuring that individual credit unions are well capitalized, but this proposal is flawed and needs to be rethought.

Implementing this proposal would restrict the credit union's ability to grow and serve its membership. It will have a major impact on credit union membership -credit unions will have to increase fees, lower dividend rates, have higher lending costs, and fewer product/service options. The full impact of this rule may lead to the future demise of the industry as more credit unions will consider changing their charter to a thrift and the benefits of the cooperative structure will disappear.

Thank you for the opportunity to comment on this proposal.

Sincerely

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President/CEO

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