CommStar
COMMUNITY STAR CREDIT UNION
Love where you bank

May 27, 2014

Mr. Gerald Poliquin
National Credit Union Association
1775 Duke Street
Alexandria, Virginia 22314-3428

Dear Mr. Poliquin.

I am writing on behalf of Community Star Credit Union. We serve the community of Lorain County, we have approximately $53 million in assets and our membership is over 8500. I appreciate this opportunity to provide comments to NCUA on its proposed Prompt Corrective Action – Risk Based Capital rule.

While it is unclear at this time how this proposed rule will affect privately insured credit unions, the impact could be substantial. That is why I feel it necessary to address how the proposed risk-based capital rule is likely to change our vision for future growth and negatively affect the services we provide to our members. The new risk based capital rule will put some credit unions at risk, or put additional burdens on credit unions to operate in a narrower field, in a time when it is difficult to raise net income and in turn, increase capital. As credit unions, we can only increase capital by increasing net income. We have no access to secondary capital. The proposed risk weights for long-term investments does not take into account applicable credit or asset liability management considerations, it only captures interest rate risk concerns. The proposed changes to the risk-based capital requirements are intended to address credit risk, interest rate risk, concentration risk, liquidity risk, operational risk and market risk. A risk weighting system based entirely on the weighted average life of an investment does not accomplish these objectives.

The weightings on real estate loans are an area where we can have a significant impact on the services we offer our members. The simplistic way the risk weightings are applied to real estate loans does not give consideration to the way we underwrite or structure our real estate loans. The proposed rule has the unintended or intended consequence of fewer real estate loans being offered to our members.

The same can be said for our recently implemented member business lending services. The benefits we can offer our members and community with our member business lending are limitless. However, the risk weightings on member business lending do not give consideration to how we mitigate risk through our prudent underwriting.

By limiting our ability to offer services to our members by requiring credit unions to implement restrictive risk weighting, greatly affects the value we bring to our membership and only serves to make us less competitive in our marketplace. Not being able to realize a greater return on this portion of our balance sheet will lesson our ability to generate revenue. Restricting our ability to generate more revenue will have a negative effect on our growth in capital and thereby producing the opposite of the stated objective of the proposed rule.

The 18-month implementation period for the proposed rule is also concerning. This short timeframe could compel credit unions to sacrifice long-term strategic priorities to meet the restrictive short-term measures in the proposed rule. It is never good thing for a credit union to sacrifice long-term need for a short-term need. The health of credit unions and our industry requires a longer implementation period than 18-months.

While we are a privately insured credit union, I view the NCUA as a partner in the credit union industry that is helping credit unions to move forward, grow stronger, and collectively strengthen our industry. As such, I strongly encourage NCUA to reconsider the proposed rule.

Sincerely,

Ernest Jackson, CEO