May 27, 2014

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Association
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: Proposed Prompt Corrective Action; Risk-Based Capital Rules

Dear Mr. Poliquin:

On behalf of Connexus Credit Union I appreciate the opportunity to comment on the proposed Regulation for Risk-Based Capital. Connexus Credit Union is a well capitalized state chartered federally insured credit union with over $600 million in assets, serving over 96,000 members. I would like to provide my thoughts on this far reaching regulatory proposal, to express concern about the potential negative impact of the proposed rule and to offer some suggestions if you choose to move ahead in the rulemaking process.

General Comments

My biggest concern is the current proposal is over reaching and unwarranted given overall credit union performance during the worst economic crisis since the 1930's. In spite of the fact that credit unions' performance under these circumstances was excellent, especially compared to the banking industry, credit unions are being penalized by the NCUA's desire to increase capital levels. Losses to the insurance fund were a fraction of those seen in banks and, for the great majority of credit unions, plenty of capital was on hand to withstand the crisis, evidenced by the fact that the NCUSIF's Fund Ratio remained very strong during the crisis with a few assessments paid by credit unions.. This is in sharp contrast to the FDIC's Bank Insurance Fund ratio, which levied significant premiums and was underwater. Credit unions for a long time have had to maintain a 7% capital ratio compared to banks 5% capital ratio to be well capitalized.. This history does not suggest that we need a modification of credit union capital requirements to be more similar to the bank rule. It does, however, strongly suggest that **if the system is not broken then no fix is necessary**.

NCUA has commented that this proposed rule has no impact on the majority of credit unions. While it may be true that the majority of credit unions will maintain their "well capitalized" status, the rule will change the way many credit union boards and management make future decisions on behalf of members and will move them more towards managing "capital at risk", which is the same as for-profit banking institutions. This will have a real impact on members - higher fees, lower dividend rates, fewer service options, higher lending costs and less lending to middle class Americans. This will be the natural result as credit unions are forced to hold more capital against routine assets, even as there is no evidence that credit union assets have been all that risky in the first place.

A sad and unintended consequence of this regulation will be to hasten the consolidation of credit unions across the country. Although the economic crisis has certainly played a significant role in this trend, an equally, although perhaps less visible cause, is increasing regulatory burden. Since before the great recession, and through the recovery of the last several years, credit union numbers have been decreasing at an alarming rate. Our cooperative movement has lost over 1,650 credit unions since 2007, which equates to a loss of **more than one credit union per business day.** It is disquieting that moving forward with this regulation will likely exacerbate an already serious concern for our cooperative movement.

It appears that it is the NCUA's intent to adopt a new rule that considers "all material risk". However, it is important to remember that under the Federal Credit Union Act, NCUA is required to adopt a rule that is "similar to that available for the banking industry" but that **"takes into consideration the unique structure of credit unions."** The proposed rule fails in a number of ways and as a result, credit unions and their members will suffer the long term consequences.

Significant Concerns

- **250% risk-weight to CUSO investments** – This is especially concerning to Connexus Credit Union. This risk-weight requirement will require Connexus to set aside $15.75M dollars of our $50M in capital for our investment in Financial Institution Lending Options, LLC (FILO). FILO annually generates over $180M in loans for Connexus and 22 other, mostly smaller, credit unions. At a time when credit unions are in need of loans, Connexus will be penalized for our investment in a sound business that helps credit unions.
- **NCUSIF Deposit** – Subtracting the NCUSIF Capitalization Deposit from both the capital and risk weighted asset totals is equivalent to writing off the deposit. It becomes more difficult to prove the asset has future economic value when it has no value in the regulatory capital ratio calculation.
- **Examiner Subjectivity** – No rule should provide any greater authority for an individual examiner to impose additional capital requirements on a case-by-case basis. It is essential that credit unions understand clearly what their capital and net worth expectations will be. It is becoming more and more frequent that examiners are being subjective and not citing regulations when they make their findings. This is a slippery slope that has to come to an end.

Additional Concerns

- **Risk Weighting**
  1) The risk weight for cash on deposit at the Federal Reserve Bank should be 0%. Since the Federal Reserve is one of the NCUA designated sources for emergency liquidity, its safety and soundness should be similar to that of government agencies.
  2) Shared secure loans have a risk weight of 75%, but since we have access to the collateral, these loans should have a risk-weight of 0%.
  3) The increased risk-based capital requirements for higher concentrations of residential mortgage loans are too high and **exceed** the capital requirements specified for small banks in Basel III. A number of factors (type of loan, LTV, debt-to-income, etc.) influence the risk of a loan, and a broad brush approach to risk-weighting mortgages seems short sighted.
- **Transition Period** – The proposed rule has a 12 to 18 month transition period, which is much shorter than the Basel III 5-year transition. Credit Unions do not have the ability to raise capital

similar to banks, and as such the proposed rule should have a longer transition period than banks. Credit unions will need more than 12 to 18 months to prepare by effectively adjusting their balance sheets through proper strategic planning.

Conclusion

In conclusion, I believe the proposed Risk-Based Capital Rules do not fit the cooperative nature of credit unions and will have a detrimental impact on credit union's ability to serve members. America's credit unions – since their inception – have been the model of risk management in the U.S. financial system. It is no accident that fewer credit unions have failed throughout their history than any other type of financial institution.

We are different. We need a different way of measuring and accounting for risk than for-profit banks. We need a method that balances the best interests of members with the safety of the money they entrust to their credit union. We need a method that recognizes credit unions as unique, cooperative institutions formed to serve members on a not-for-profit basis. Let credit unions continue to set the example for responsible risk management.

I urge NCUA to abandon their efforts to create a risk-based capital rule that is not needed.

Sincerely,

J David Christenson
President,CEO
CONNEXUS CREDIT UNION

Cc: Congressman Sean Duffy
Senator Ron Johnson
Senator Tammy Baldwin