CORE
FEDERAL CREDIT UNION
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May 22, 2014

Mr. Gerald Poliquin, Secretary of the Board
National Credit Union Adminstaration
1775 Duke Street
Alexandria, VA 22314-3428

Dear Mr. Poliquin:

As the CEO of CORE Federal Credit Union, I am writing this letter to express my strong misgivings with many aspects of NCUA's proposed risk-based capital framework. A properly designed capital framework gives financial institutions the ability to manage risk; unfortunately, this proposal seeks to eliminate risk, and does so in a manner which ignores the unique attributes of the credit union industry.

Credit unions are consistently told by both policymakers and regulators that the strength of the industry is the fact that when making lending decisions, credit unions actually know their members and understand the communities in which they are operating. But by placing risk weightings on credit union loans without also taking into account the underwriting that was done before making these loans NCUA is effectively discounting the unique insights of a given credit union in the name of a subjective assessment safety and soundness, that places the same numeric value on loan portfolios at highly varied and different institutions.

In seeking to minimize or eliminate, rather than manage risk, NCUA would take a one-size-fits-all approach to credit union management. For example, NCUA would impose a 1.00 risk weighting on credit union student loans made by CORE and other credit unions. This weighting doesn't reflect the credit union's history with the student, the strength of the underwriting and guarantors, or their portfolio performance. For example, in the six years we have been operating our program with both in-school and post-graduate borrowers, we have had no losses and only a handful of late payments. The proposed risk rating on our over $3MM portfolio is wholly out of step with the quality of our program.

This proposal also gives examiners too much power to substitute their judgment for a credit union's. In the preamble to this regulation NCUA explains that it is seeking the authority to "require individual credit unions to hold a higher level of risk-based capital" based on "specific supervisory concerns." As a result, even when a credit union is complying with NCUA's own regulations, examiners could preempt the judgment of an elected board and their CEO.

Even if NCUA rarely uses this power, all credit unions would be impacted by NCUA's judgments as reflected in the proposed weightings. For example, by deciding that an investment in a CUSO is among the riskiest investments a credit union could make - CORE'S $48,000 CUSO investments would be calculated as a $121,000 asset, despite the fact that our modest CUSO investments are equity

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investments in our card processor and an ATM cooperative network that carry no credit risk, but are merely a reflection of us sharing in the profitability of the CUSO's over time by them adding distributions to an equity account on our behalf. NCUA is effectively making it more difficult for CORE to make the decisions it feels are best for its members.

Even though CORE is and would remain a well-capitalized credit union with a substantial capital cushion, the proposal shrinks our cushion by over 160 basis points and also negatively impacts sister credit unions that we often engage in joint ventures and participations with. NCUA's proposal will impact many credit union's investment and lending decisions. We are seeing increased demand for residential mortgages, particularly from an underserved market that NCUA chartered us to serve a few years ago, but under the proposal our capital requirements would become more restrictive as our mortgage portfolio exceeded 25% and 35% of total assets, which would hinder us in properly serving our members.

NCUA is seeking to place these restrictions on credit unions even though there is little evidence that credit unions need a more restrictive capital framework, given how well most natural person credit unions overall came through the financial crisis . It is also puzzling as to why several proposed risk weightings for credit unions would in some cases double those being applied to commercial banks under Basel III regulations, since credit unions' strong financial performance vs. banks would logically argue for less restrictive, and not more restrictive benchmarks.

Conceptually, a risk-based capital system should be designed to mitigate credit, interest rate, concentration, and liquidity risk. However, for such a system to be effective, it has to include supplemental capital authorization for all credit unions, not just those that have been designated as low income credit unions. Supplemental capital would enable credit unions to both grow and comply with more intricate risk-based capital requirements. Proposing highly restrictive measures more stringent than those applied to banks, particularly in the absence of all credit union having access to raise supplemental capital, would be a serious mistake. It would be a blow to the credit union industry's ability grow and compete against other financial institutions, and limit service to our memberships. NCUA should instead use its influence as the primary regulator of credit unions to argue for legislation allowing credit unions to accept secondary capital and refrain from attempting to impose such restrictive capital limits which are neither suited to, nor required for, the current state of the credit union industry.

Sincerely,

William Sweeny

CEO