Mil-Way
FEDERAL CREDIT UNION
"Our priority is service not profit"

May 28, 2014

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

Sent via E-mail to: regcomments@ncua.gov

Re: Comments on Proposed Rule: PCA – Risk-Based Capital

Dear Mr. Poliquin:

NCUA's efforts to address all of the questions raised by the Government Accountability Office (GAO) regarding credit union related losses during the recent financial crisis as well as develop additional "prompt corrective action" (PCA) procedures to quickly identify failing credit unions, has been commendable. The GAO has tasked you with a sizeable obligation, and within a relatively short amount of time, NCUA has made substantial strides in providing proactive solutions in all regards. I congratulate you on your hard work and successes.

However, as a CEO of a $110 million credit union, I must express my concerns regarding NCUA's proposal of the Risk Based Capital (RBC) rule which I understand to be in response to the second of the GAO's recommendations towards creating additional PCA triggers. With this said, my initial reaction to the RBC rule proposal, is the way in which it will cripple credit unions' fight to stay competitive in the financial industry and to be a viable and affordable option for our community members when it comes to accessing reasonable financial services.

The crippling effect begins with the proposal of increasing the net worth/leverage ratio from the statutory level of 7% to the proposal's description of being "well-capitalized" at 10.5%. With no way of going to the streets to garner additional capital, as do banks, we would resort to reducing dividend payments to members, increasing our loan rates and service fees and/or further reduce expenses which in turn plays a role in offering value-added services known to help low-income areas. As stated in May's edition of the *NCUA Report*, only a few credit unions would be affected by the net worth ratio change, however, with the nation's sustained economic instability over the past few years, many conservative credit unions would consider implementing the above mentioned preventive measures immediately to avoid a drop in net worth.

NCUA is conservative as well. Being preventative in avoiding losses is one of the reasons the administration is moving away from tying PCA's to capital-based indicators only. I agree that in the financial industry, it makes sense, to identify financial indicators within the areas of asset quality, management, earnings and liquidity which would quickly detect distressed institutions in need of assistance or guidance. Unfortunately, community and small banks, our main competition, are not being held to the same all-encompassing restrictive measures as proposed in the RBC rule. While small and community based banks will be able to work in a much freer environment under the direction of Basel III, credit unions will be forced to juggle their products and services to create or maintain 'well-capitalized' financial statements.

Also, it would be disappointing to see us lose ground in the public's eye by making it more difficult for members and potential members to do business with us since we have gained substantial positive public recognition over the past few years as being a great alternative to other financial institutions. I would hate for us to make the mistake of being overzealous in addressing the GAO recommendations and overcorrect to the point of crushing our competitive efforts in the financial industry. Implementing the RBC rule would only exacerbate the regulatory difficulties in this already heavily structured industry.

Going forward, I agree with the Kings/Meeks letter and the Cornerstone Credit Union League comment letter with regards to the RBC rule and would agree with the recommendations of asking NCUA to realize the cost and burden of implementing the new risk-based capital requirements beyond current ratios, adjust the risk-weight calibrations and allow credit unions more time to adjust their practices to adhere to the new rule.

My hope in writing this letter is to ask you all to consider all of our comments and work collaboratively with us to find a workable solution before implementing a rule which I believe will be an industry wide altering directive, negatively affecting not only credit unions, yet the members, who benefit the most from our cooperatives.

We appreciate the opportunity to comment on this important issue. Thank you for your time and consideration regarding this matter.

Sincerely,
Allen L. Brown, CEO
Mil-Way Federal Credit Union