Gesa
CREDIT UNION

May 28, 2014

Gerald Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Re: Prompt Corrective Action – Risk Based Capital

Dear Mr. Poliquin:

The purpose of this letter is to express my thoughts related to the proposed Risk Based Capital Guidelines. Gesa Credit Union is a $1.34 billion credit union located in Richland, Washington, with a membership of 118,000 members. We have served the members of our community since the early 1950s.

I am not opposed to Risk Based Capital requirements but I do have concerns with the current proposal. We generate several hundred million dollars in loans annually and our loan products include mortgages and member business loans. The current proposal risk weights a well performing business loan equivalently to a delinquent mortgage loan. This risk weighting does not seem to properly "value" risk, and ignores the fact that credit union MBL lending capacity already has conservative regulatory caps. Additionally, the risk weight assigned to Mortgage Servicing Rights, which is a saleable asset and GAAP requires us to have annual independent market valuations, seems excessive. This high risk weighting may force credit unions to reduce their mortgage lending program because selling and servicing the loan negatively impacts their RB Capital Ratio.

The proposed risk weightings also seem excessive in the investment category. A four-year investment is weighted at 75% while a six-year investment is weighted at 150%. These ratings appear excessive for longer term investments and there is no proper consideration for quality of the investment, such as government backed securities.

Also, the current proposal allows too much discretion and subjectivity for the NCUA to impose higher capital requirements on any one credit union. This level of authority, even with the best intentions, is not a prudent or good business practice. I believe recent history has enabled the credit union industry to clearly demonstrate its conservative financial nature and its ability to successfully coordinate and navigate financial challenges in step with the Governing Authority.

In conclusion, I am not opposed to Risk Based Capital requirements but the proposed approach is not friendly to the credit union industry. The introduction of new risk based requirements will require credit unions to realign their balance sheet, which to do prudently will take years to accomplish and not months. In addition, any Risk Based Capital proposal should incorporate supplemental capital to provide the industry an additional avenue for equity generation.

Respectfully,

Don Miller

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