From: Jeremiah Kossen
To: _Regulatory Comments
Subject: PCA/RBC Comment Letter
Date: Wednesday, May 28, 2014 5:20:06 PM

Dear Secretary of the Board Poliquin,

I am writing on behalf of Lake Michigan Credit Union. We have 224,646 Members and $3.2 billion in assets. LMCU appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action - Risk-Based Capital.

The proposed rule would force us to significantly alter our business model, which is primarily focused on mortgage lending.

We feel the proposal is unwarranted and will not serve to protect the NCUSIF. The proposed risk weightings are significantly more punitive than those imposed by Basel III, for the banking industry, which fared much worse than ours in the recent economic downturn. In addition, over the past few years the majority of losses to the NCUSIF have been fraud related (i.e. St. Paul's Croatian), not due to a lack of capital. Those that were not fraud related (i.e. Huron River, Telesis) would have failed regardless of if the proposed RBC structure were in place.

We strongly disagree with granting the authority to impose additional capital on a case-by-case basis, particularly given the current proposal would allow such without due process.

We strongly disagree with the arbitrary risk-weightings for MBL's, mortgage loans, long-term investments, and CUSO investments. There is no rationale or evidence supporting these risk-weighting's. In particular our industries loss ratios for MBL's and mortgage loans are significantly below those of FDIC banks, yet the proposed risk weightings are significantly higher. The proposal attempts to manage concentration risk, however such risk is better controlled through supervision and examination, not a one-size fits all.

The proposed rules would set the risk-weight at 250 percent for mortgage servicing assets (MSAs). This is very concerning to us as we have a significant, non-recourse, MSA on our balance sheet. As seen by recent sales, MSAs are liquid and gain value as rates rise. This asset helps hedge interest rate risk, allows us a source of member-friendly non-interest income and does not warrant such a high risk-weight.

Goodwill should not be excluded from the calculation of the RBC numerator. If the proposal goes through as constructed we would be much less likely to consider merging in a troubled institution as it would hamper our ability to continue servicing our members. We would also have to carefully weigh partnering with a healthy credit union as it also could impede our ability to service our standing membership base. Neither scenario is good for our industry or members.

The proposed implementation time period and effective date of 18 months after the passage of a final rule and its publication is not long enough for such a wide sweeping rule. This is particularly true given our inability to raise capital other than through retained earnings. In addition, the Basel III rule does not become fully effective until January 1, 2019, allowing banks significantly more time to adjust to a rule which is much less punitive.

In summary this one-size-fits all rule would stifle growth and impact our ability to serve our members. We believe the NCUA Board should work with Congress if it intends to implement such a widespread change to capital requirements. Absent that we believe all risk-weights should be significantly reduced and more consistent with FDIC risk weights. In addition, we recommend significantly extending the implementation time, and not excluding goodwill and the NCUSIF from the RBC numerator.

Thank you.

Sincerely,

Jeremiah Kossen, VP of Operations
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