May 28, 2014

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

Re: Comment to the Proposed Prompt
Corrective Action – Risk-Based Capital Regulation

Dear Mr. Poliquin,

I am writing on behalf of Community Financial Credit Union, which is a community credit union serving numerous counties throughout the state of Michigan. We have 55,000 members and $563 million in assets. Community Financial appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action - Risk-Based Capital.

Our credit union is well-capitalized under the current regulations with a net worth ratio of 13.28% as of March 31, 2014. Under the proposed regulations we would remain well-capitalized. While our current balance sheet supports this, our concern with the new proposal is the impact on our future strategic plans to serve and support our communities through increased business lending.

The higher risk weightings assigned to MBLs as the portfolio concentration increases do not make sense to us. We have originated small to medium size Member Business Loans for 30 years. Our portfolio is currently 6% of total loans, ($15.5 million) but has fluctuated over the years as we meet the changes in our community businesses lending needs. While this is under the 15% that carries a higher risk rating we feel that as a low-income designated credit union the possibility exists for us to exceed this. We also know that with experience, which usually translates into a larger portfolio, comes increased expertise in all areas related to managing, underwriting, and servicing member business loans. To assume as the concentration becomes more those loans become more risky has not proven to be the case. Our loss ratio on our portfolio is 0% with the last loss experienced being in 2010 for $18,000.

While these particular balance sheet categories do not currently impact Community Financial we question the thought behind the risk weighting associated with servicing assets, long-term investments, and CUSOs. It is surprising that investments would be stratified by terms but first mortgages are not. With that in mind it seems unreasonable that 10 year investments would be assigned a rating of 2.00.

The issue of examiner subjectivity (Section 702.105c) is also of concern to us. Allowing examiners to require additional risk based capital above what is proposed in the regulation invites inconsistent and potentially arbitrary applications of rules. Unlike under the existing statutory net worth rules (PCA), credit unions will no longer have clear rules by which to run their credit union to avoid prompt corrective action by their regulatory agency. Why have any tables of risk rating if the levels can be changed on a credit union by credit union basis? This proposed section should be eliminated in order to provide the clarity of capital and net worth expectation that a credit union board and management team must have in order to make strategic business and fiduciary decisions.

In summary, while we support the concept of a risk-based capital structure for credit unions, we feel that the concerns noted above need to be addressed for the regulation to provide the value that is intended.

Thank you for the opportunity to comment.

Very truly yours,

Meg Pankow

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