

State Employees' Credit Union

Audit Services
919-839-5125

May 27, 2014

Mr. Gerald Poliquin
Secretary, NCUA Board
1775 Duke Street
Alexandria, Va 22314-3428

Dear Mr. Poliquin:

I preface my comments by noting that I have worked for our credit union 42 years, and have been extensively involved in the CU movement all of that time, working with and collaborating with other credit unions and CU Leagues across the country to share best practices and the philosophy of a cooperative. I am proud to be a credit union employee, and even more proud to have devoted 2/3 of my life to a cooperative, non-profit movement which is focused solely on "Doing the Right Thing" for our members. During the vast majority of my CU career I have been proud to be associated with NCUA, both at the examiner level and with the NCUA Board members. Over four decades NCUA has provided our credit union with some valuable insights, respectful dialog and thoughtful recommendations. I have always espoused that NCUA, just like every credit union, was also focused on "Doing the Right Thing" because they clearly understood our mission in life and had a very vested interest in actually helping credit unions not only succeed, but thrive. Was always impressed because this seemed to be much different than the approach taken by FDIC and other regulators.

For the first time in my 42 year CU career I am actually embarrassed by the actions and direction of NCUA, at the Board level and examiner level. The recent recession has turned NCUA away from being a cooperative partner in assuring that credit unions succeed and thrive, with NCUA now being viewed by nearly all CUs as an adversary. The "about-face" seemed to happen quickly, and it now appears NCUA has completely lost sight of its mission and purpose due to some shallow, uninformed, uninspired thinking in the "back office". It is truly obvious that the back-office analysts have wrested control of NCUA away from the front line folks who are directly involved with credit unions day in and day out. NCUA clearly appears to have turned against CUs when we needed you the most. Very disheartening to me personally to have worked two thirds of my life trying to do good, only to end up where we are now, viewed only by NCUA for our liquidation value!

In my opinion the Risk Based Capital proposal is the most egregious example of my statements above – that NCUA is no longer a cooperative partner in a cooperative movement, but is a credit union adversary controlled by "back room" analysts and liquidation specialists who view CUs only from their liquidation value in a fire sale. During my MBA school years at Duke University our focus was always on valuing companies based on their future potential. We never spent a single day deriving

liquidation value – that’s easy – anyone can do that. What happened to cause NCUA to abandon the concept of helping credit unions achieve their potential by thoughtfully listening to each CU they regulated and insured?

My general concerns with the RBC proposal, while numerous, are briefly consolidated as follows:

- 1) **Basel III has been adopted by every other regulator**, and the regulated banks have agreed and adopted its provisions after years of wrangling and negotiating. Why in the world would NCUA not follow Basel III, and actually soften some of its requirements for credit unions who do not have complex global operations? This is embarrassing for the credit union movement.
- 2) Why did NCUA not spend at least six months gathering input from CUs of all sizes in all parts of the country regarding this critical issue of Risk Based Capital? Again this “behind the scenes”, “do it in secret” process flies in the face of a cooperative system, further solidifying NCUA’s recently acquired reputation as a CU adversary.
- 3) **Overnight funds at the Federal Reserve risk-weighted at 20%?** Don’t really know how to comment on this since the entire world (banks, finance, pension funds, insurance companies, etc.) consider Fed Funds as a “No Risk” asset. Once again, this is a public embarrassment for the credit union system to state there is a risk with the Federal Reserve. By the way, SECU has \$11 billion in overnight Fed funds, so this issue is a bit personal.
- 4) **Risk-Weighting Residential Mortgage Loans to 75% and 100%** based on their percentage of a CU’s assets effectively eliminates most CUs from offering this very valuable service to our members, and sends them to other lenders where the risk weight of a home loan is 50% - PERIOD. What does the percentage of our assets have to do with any single loan? For example, when we reach 35% of assets threshold in mortgage loans, the very next member who comes in wanting a \$150,000 loan on a \$250,000 home, we must immediately reserve for the full \$150,000 loan regardless of the fact that the loan has a 60% LTV and the member has an 800 FICO score. Since every single mortgage loan at a bank has a risk weight of 50%, why is a home loan to a CU member more risky depending on when the member gets the loan (e.g. First members in line rated at 50%, but if you wait until other members have gotten loans, your risk would be greater because you were at the end of the line). This proposal has no common sense basis, and it dampens the economy by restricting our ability to put good folks into homes.

If NCUA is determined to risk-weight home loans differently than Basel III, why would you not do so based on LTV? Does a 100% LTV loan carry more risk than a 60% LTV loan? According to NCUA’s proposal, both loans are treated exactly the same. This is another embarrassment for the credit union system because it has no common sense basis, and thus cannot be reasonably explained to our members or the public.

- 5) **Sixty day delinquent loans weighted at 150% for CUs**, while Basel III does not risk weight delinquent bank loans until 90 days. Nationwide, 90 day delinquency is half the amount of 60 day delinquency for all banks and credit unions. Thus it is obvious that most 60 day delinquency gets resolved without default – lots of 60 day delinquency due to medical issues, maternity leave, job change, etc. On top of that is the fact that credit union charge-offs are consistently less than half of bank charge-offs in all categories year after year. Yet NCUA insists on treating CU members as far more risky than bank customers when it comes to defaulting on loans and credit cards. The “back room expert analysts” at NCUA have all this information, so how did they deduce that the risk of CU members defaulting is greater than bank customers? Another embarrassment because it simply cannot be explained.
- 6) **Deleting our NCUSIF Deposit from the Capital Calculation** – Regardless of any statistical logic behind this bizarre requirement, did anyone at NCUA even consider the public perception of this notion? Cannot possibly explain to SECU members why our \$220 million deposit at NCUA is considered worthless! This requirement is probably worse than saying overnight funds at the Fed have a 20% risk. So the Federal Reserve has a 20% risk while the funds at NCUA are automatically worthless! Deleting the NCUSIF deposit probably carries the greatest embarrassment factor of all – and you can count on this being run up the flag pole at ABA’s headquarters.
- 7) **Individual Minimum Capital Requirements May be Imposed**. An examiner can impose stricter RBC requirements if he / she determines that a CU carries more risk than is accounted for in the NCUA calculator. Astounding!! Applying this concept to your personal life, a policeman would have the authority to impose his / her personal values on you regardless of the written law. You could be fined or arrested for texting while walking on a public sidewalk. This final provision of the RBC proposal publicly declares that NCUA is a dictatorship form of government, and thus publically declares their relationship with credit unions as adversarial by advising all CUs that NCUA has supreme, unfettered authority regardless of any written law or regulation. More than any other statement in the RBC proposal, this one sincerely hurts my pride in the CU system I have supported for over 40 years.

The NCUA Board and the “back-office analysts” have created a mess with this proposal which can hopefully be unwound, but the damage to NCUA’s reputation will be difficult to repair because they have publically staked themselves out as believing they are right and everyone else (Basel included) is wrong. I truly hope you take everyone’s comments to heart. Thanks for your time.

Respectfully



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