From:	Susan Fisher
To:	_Regulatory Comments
Subject:	Prompt Corrective Action Risk-Based Capital Comment Letter
Date:	Wednesday, May 28, 2014 6:20:52 PM

Dear Secretary of the Board Poliquin,

Tongass Federal Credit Union, Charter 15523
*Low-income designated
*Community Development Financial Institution
*Community Development Credit Union
*Branches on 3 islands in Southeast Alaska

Credit Unions like ours have spent years building strategic plans and redirecting efforts to move into areas that no bank and most credit unions don't want to serve: the less lucrative accounts and loans held by lower income persons, and especially in remote rural communities.
The proposed RBC regulations signal that there may come a high price to pay for both our choices and our geography.

Why would our industry want CUs sitting on large amounts of reserves at a time when the people most hurt by the recession are still struggling? How would pushing CUs to boost reserves help the U.S. economy at this fragile point in time? And why would our regulators want to hinder the service that credit unions like ours are providing underserved people?
If credit unions are living on the margin – and largely off fee income – why would we want to sock higher fees on to our members? And why do we want more idle funds earning next to nothing in investments just to plump up net worth? Why wouldn't we want to get that money back in the hands of our members, the American consumer?

The proposed regulations are scary because they move us to an indiscriminate scoring system that does little to take into account such things as:
1. Uniqueness in community or region, including economy, numbers of credit unions in the market, economic distress, median family income, and history of the individual credit union.
2. A strategic plan that has been in place and is being followed.
3. Sustainability.
4. Diversification in the Loan and Investment Portfolios (a great strategy for mitigating risk).
5. Credit Union commitment to service (Don't make us choose profits).
6. Loan and investment performance – not just types and dollar amounts.
7. Balance sheet impacts to make sweeping changes to get quickly to compliance (Dump deposits? Rush into new loan products? Big fee increases? Job reductions?)
8. Leadership (including volunteer officers) experience and knowledge of community/region/state.
9. Community impact.

Yes, risk must be measured and should be measured. Credit Unions should consider how they are offsetting the risks they take. But the NCUA has a big toolbox. It already has the means to size up credit unions engaged in high risk lending and investing, lacking strategic direction, unable to differentiate themselves in a competitive market, showing an erosion of income/net worth, inability to comply with regulations, etc. Regulators scrutinize us every year.
The proposed RBC regulation takes a One Size Fits Most approach that is just too broad. We aren't alike, even within our Peer groupings. There are many variables at play.
For example, why are CUs who belong to CUSOs given higher risk ratings? There's a huge difference between a CUSO for making Business Loans and a CUSO that owns and controls its core data system. In fact, I would contend that the latter is a means of mitigating risk – we are stronger joined together in that kind of effort rather than each CU being at the mercy of a third-party, profit-motivated vendor. And on business loans – isn't there more to consider? How about who is in the CUSO, who is making the loan decisions, and the loan performance?

I want to give a very specific example of what this proposed regulation could mean for a credit union like ours. Right now we're okay because we have a Secondary Capital cushion until we pay back a $1.6 million (CDCI) loan to the U.S. Department of Treasury. That loan enabled us to do some incredible things that would have taken us many years to do if we had to pay as we go, if we even attempted the outcomes at all. The NCUA approved our Secondary Capital plan, approval required for us to get the federal money. That is a cushion because that $1.6 million applies to our Net Worth. We planned this. We didn't plan on the recession. We didn't plan on the stabilization payments. And we didn't plan on NCUA changing net worth requirements.

Another specific issue: TFCU spends about $18,000 a year on our School Savings program in staff time, promotions, dividends and other costs. We end this school year with 800 students in 13 schools (on 3 islands) saving more than $63,000 by bringing their change to school. That $18,000 turned to income could sure build our Net Worth at a faster clip. It could make us look better on paper. But I wonder why we would want to choose that over teaching kids that they can save money and introducing them to a credit union?

We share a lot as Credit Unions, but we are not all the same. Our "risk" is not all the same, nor are our efforts to mitigate risk the same. Our strategy is not all the same, and it cannot be the same.
Our regulators need to take some more time to reconsider the need for differentiation, diversification and relevancy. Please, you may crush some worthy credit unions without more thought to performance and outcomes.

Let me reference a study worth reviewing: Filene, "Improving Peer Group Analysis for Credit Unions," and especially why benchmarking is not without pitfalls. http://filene.org/research/report/Benchmarking
Take more time, please.

Sincerely,

Susan Fisher, CEO/President
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