Erie Federal Credit Union

Financial Solutions From Local People You Trust®

April 9, 2015

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

Re: Comment to the Proposed Risk Based Capital 2 Rule

Dear Mr. Poliquin:

Erie Federal Credit Union is a $440 million community chartered credit union serving the Erie and Crawford county communities and currently over 51,000 members. On behalf of Erie FCU, I would like to provide the following official comment letter regarding the NCUA's recently proposed risk-based capital 2 rule.

The updated proposed risk based capital rule is an improvement over the original version, but still falls short of being an equitable and useful tool for NCUA and the credit union industry. This new rule would add a requirement that a credit union must maintain capital commensurate with the level and nature of all its risks and must have a process to determine its capital adequacy in light of its risks and a comprehensive written strategy to maintain an appropriate level of capital. Any proposed plan would have to be approved by NCUA and could be used by examiners as an example of what any credit union should use as acceptable levels of capital and potentially hold capital levels above and beyond what is required in the proposal. This potential arbitrary measurement of appropriate capital deeply concerns me as all credit unions are not the same.

I would like to commend you and NCUA on the changes you have made in version 2 of the new RBC proposed rule. Specifically: limiting the RBC requirement for well-capitalized credit unions from 10.5% to 10%; improving risk weights for various asset types, although I think there is some work to be done here; allowing the entire ALLL account to be included in RBC; permitting goodwill in "supervisory" mergers to be included in RBC; and delaying any final RBC rule until 2019. These are all very positive steps for the well-being of credit unions and their members.

However, there are still parts of the new rule that seem over burdensome to credit unions, that could negatively impact the way we serve our membership as a trusted financial partner. Specifically: the capital adequacy written requirement as I mentioned earlier; the risk weights for first mortgages and junior liens seems out of proportion to their risk profile; the risk weight for member business loans, specifically real estate member business loans at 100% - it would seem more reasonable to put this at 75%; excluding the NCUSIF deposit from both sides of the calculation; the 250% risk rate for mortgage servicing rights which are no more risky than the assets they are tied to; there are still no supplementary capital provisions; and increased complexity of an already complex call report.

Overall the rule looks to change the way credit unions lend in the future, by moving credit unions away from real estate secured lending and focus on credit cards, auto and other consumer loans that have less risk ratings in the new proposal. Limiting real estate lending by imposing higher risk weights is not a one size fits all category. Here in Northwest PA., we experienced very little, if any of the mortgage crisis back in 2008 and in fact our charge offs in real estate lending are practically 0, much less than other consumer loan categories. Also, while still fairly new to the business lending as our portfolio is only about 7 years old, we have experienced 0 losses and have virtually no delinquency. To potentially limit these areas of lending due to unreasonable risk weights seems seem unfair, not only to credit unions, but to our members.

While the new RBC 2 proposed rule may only affect about 19 credit unions moving them from their current well capitalized position, it threatens many more credit unions from falling to levels below well capitalized as they grow in the future. Which would likely impact (limit) credit union services, which will undoubtedly negatively affect our community and our membership. Erie FCU is priding itself on being a "trusted" financial partner in our community, and the new proposed RBC 2 rule does nothing but jeopardize this. I will point out that the current (PCA) capital rule has and does serve the credit union industry well and was more than sufficient during the worst recession ever in 2008. No government bailouts for credit unions and in fact the credit union industry had more than enough capital to "pay" to keep the insurance fund at adequate levels and remain a very well capitalized industry.

I would like to thank you for the opportunity to comment and hope that the new proposed RBC 2 rule does not get implemented without additional changes, if at all.

Very truly yours,

Fred Tonty

Fred Tonty
Chief Financial Officer
Erie Federal Credit Union, Charter #1476

Cc: Deborah Matz, Chairwoman
Brian Waugaman, CEO Erie FCU