

Regulatory Comments

From: Sherwood Spells <no-reply@cuanswers.com>
Sent: Monday, April 13, 2015 11:56 AM
To: _Regulatory Comments
Subject: Risk-Based Capital Comment

To: Regulatory Comments
From: Sherwood Spells
Frankenmuth Credit Union

04/13/2015

Dear Mr. Poliquin:

History has shown that the cooperative model of credit unions is a successful one. The diverse nature of our charters has meant that despite little capital—except member good will and loyalty—the forefathers and current stakeholders of the industry have built the second largest financial system in America today, serving close to 40 million households with savings of nearly \$1 trillion. The proposed rule will serve to hinder that diversity by placing credit unions into more general categories. Protect the true nature of credit unions by ending this rule so we can celebrate the charters that made this industry possible, from the \$60 billion Navy FCU to any of the \$1-5 million “family” credit unions. From the farming communities of South Dakota serving family farms with loans to the taxi drivers from NYC to San Francisco. From the raw recruit in San Diego to the forward deployed military professional in Diego Garcia, Korea, or Afghanistan. From the auto worker in Detroit or Tennessee to the high tech communities of Silicon Valley.

I believe the revised RBC rule penalizes credit unions for specific activities such as real estate lending, member business lending, and credit unions chartered to assist the un-bankable by placing a capital tax on the resulting assets of low income or poor credit lending. We believe the end result will be thousands of homogenous balance sheets in 2025 that you can easily understand from a supervisory perspective. However, this current risk posture of the NCUA cannot fail but to lead credit unions to shy away from diversity or cooperative reason for the charter and field of membership. The end result of this rule will ultimately force credit unions into potential areas of investment and lending that the credit union lacks experience with or create industry wide concentrations that could be impacted by similar economic variables. In and of itself, this rule creates more risk than it proposes to control.

Congress intended for the NCUA to develop rules around credit union complexity that would take into account the diversity of credit unions. An arbitrary asset cut-off point is contrary to the mission Congress provided to the NCUA, which is to take in account the special nature of my members’ relationship with my credit union.

As pointed out in the Hon. J. Mark McWatters’ dissent, the NCUA has pivoted away from its own long-standing interpretation of Section 216(d) of the Federal Credit Union Act. In 2007, the NCUA asked Congress to amend the regulation because you said the NCUA needed additional authority to create a two-tiered Risk Based Capital test. Can you explain why you suddenly believe the NCUA has the authority to do so, when your past practice has been the exact opposite?

Although Congress has stated NCUA must develop risk based capital standards and they must be formulated in a similar fashion as the banking industry, we do not believe Congress wished to create a tax on members and abandon the cooperative principles of credit unions. Since the publication in the Federal Register the actual

costs associated with this capital tax have been challenged. Recently NAFCU published an estimate that credit unions will need to raise an additional \$760 million dollars in capital to achieve their current capital levels. Because credit unions only have one source of earnings, that additional capital tax must come directly out of our members' pockets through a reduction in savings rates, increase in loan rates, and potentially changes to transaction fees. We believe NCUA's estimate falls far short of the actual cost to the industry and again focused on the potential risk to the insurance fund rather than those they regulate and ultimately their members . In an effort to remain the best financial resource for our members, we would encourage the NCUA to withdraw the proposed rule altogether.

When CUs are engaged in a daily, hand-to-hand struggle to help folks improve their lives, to encourage their hopes, to educate their kids, and to find a way to stretch shrinking paychecks to the end of the month: then yes, I get angry and incensed by silly people, sheltered from accountability and the hard realities of this desperate economic struggle who recklessly and insensibly make our tasks unnecessarily more difficult. RBC needs to go.

I would like to recommend that the NCUA truly believes that this rule will uncover the outliers and those credit unions that should operate with higher levels of capital than make this rule a test similar to those currently being performed like the 17/4. The OCC has numerous ratios and tests which they perform based upon call report information such as the canary ratios. These ratios are designed to uncover outliers and direct supervision in these areas to review.

A handwritten signature in black ink, appearing to read "Sherwood Spells". The signature is written in a cursive, somewhat stylized font with a long, sweeping underline.

Sherwood Spells
Frankenmuth Credit Union