April 17, 2015

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314–3428
(Via email attachment)

Dear Mr. Poliquin:

In the first comment period, we addressed in specific detail the individual risk weighting percentages, classifications, and the impact on the net worth ratios. We appreciate NCUA's response and action in revising the proposed regulation. We take this opportunity to write on the impact of the proposed Risk Based Capital (RBC II) at more of an industry level.

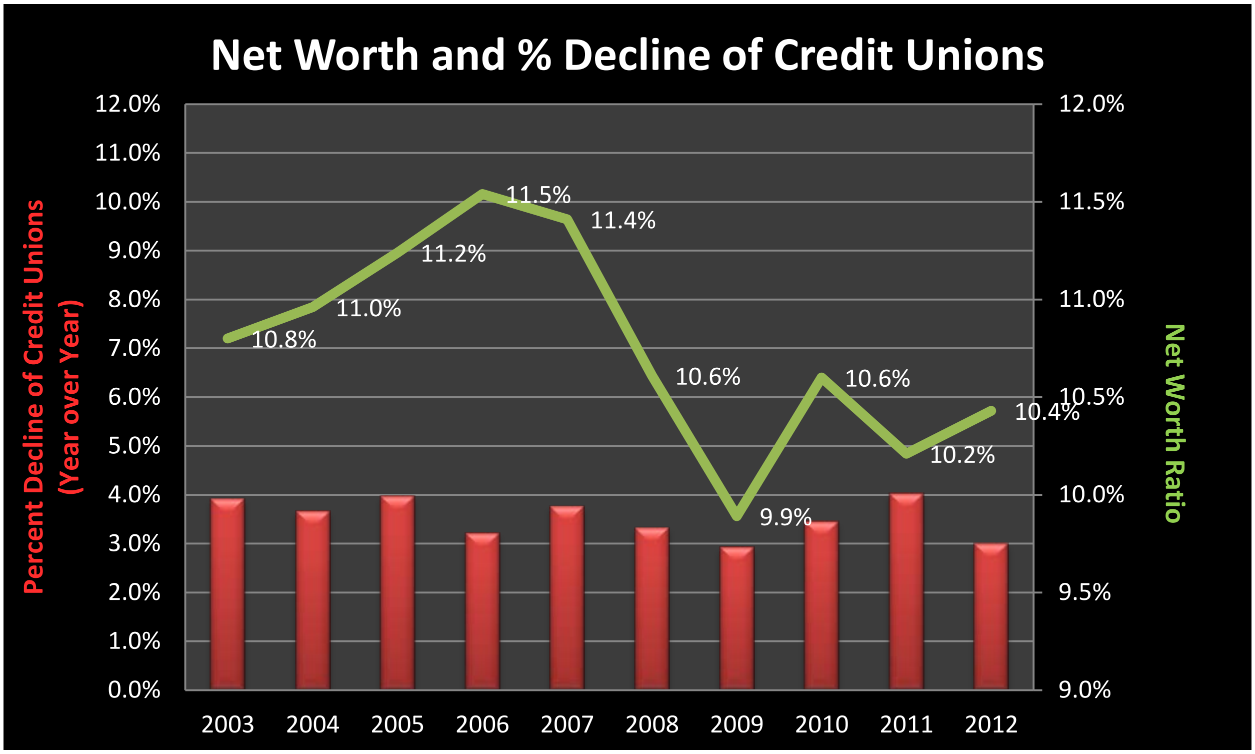
Meridian Trust Comment

NCUA has provided details on the reasoning behind RBC II. There are sound arguments in support of the proposed regulations and the majority of us would agree that we do not want to be plagued by the problems that came out of the Great Recession.

But there hasn't been substantial evidence that shows that credit unions, in general, had a problem or contributed to the problem. Contradicting what was happening in other types of financial institutions, credit unions thrived.

Taking a closer look at nine years of net worth percentages through different economic cycles, there is a telling story. We see on the chart on the next page, the percentage change in the number of credit unions from year to year with net worth ratios paralleling on the line above the columns. The nine-year span encompasses economic growth and retraction, yet the rate of decline for the number of credit unions wasn't materially affected even as net worth varied by 160 bps. In fact, the lowest net worth ratio of 9.9% reflected only a 2.9% decline for that particular year.

Can we logically conclude that *more net worth decreases the decline* of credit unions? Not necessarily.



Higher net worth ratios comes at a cost to credit unions and their membership. If credit unions are required to divert membership benefits to higher net worth ratios, it erodes away the benefits of ownership in a financial co-operative. Twenty-three thousand people that belong to this credit union would be adversely affected. They come from all walks of life: railroad, university students, postal workers, school teachers, state employees, RNs, farmers, military, National Guard, business owners, and stay at home parents. If ownership is eroded away, so does self-sufficiency of the organization. We lose the leverage to grow our loan and deposit base. We lose the ability to cap fees. Raising prices will not be out of the question. We become another cookie cutter financial institution. There is no value of ownership in that scenario.

Second point of this comment letter is to underscore the net worth ratios of the credit union industry. Credit unions have managed under the Federal Credit Union Act with 7% being well-capitalized. As the graph above indicates, the industry as a whole has maintained a much higher level, upwards of 300 bps. Clearly, credit unions are managing their balance sheets and risks effectively over the course of many years. Credit unions did more than just “ride out the storm”, we managed through it.

Conclusion

The financial industry has seen more changes in the last 4 years than we have since the ‘70’s. Yet, credit unions have experienced phenomenal growth in loans, members, and deposits.

We urge the NCUA Board to put RBC II on hold until other portions of the framework are in place, such as secondary capital regulation or Congressional changes are made within the Federal Credit Union Act. The charter structure is inherently different between banks and credit unions. This should be demonstrated in whatever we do when our decisions have the power to influence the credit union industry or change our structure

We owe it to our membership to keep the promises we made long ago about ownership and membership value. Americans have joined credit unions because we delivered on what we promised: thrift, safety, and access to a member-based financial co-operative.

Best Regards,

Jerry Krois
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