Educators
Credit Union

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

RE: NCUA's RISK BASED CAPITAL PROPOSAL -2

Dear Mr. Poliquin:

Educators Credit Union would like to take this opportunity to comment on the NCUA's recently issued revised proposal to create a new risk based capital regulation (RBC-2) for the credit union industry. Educators Credit Union is a $370 million asset Texas based community chartered credit union with main offices in Waco, Texas. We serve over 37,000 members from our nine locations and are charted to operate in six different counties in the central Texas area. We currently maintain a strong capital ratio of 15.44% which is reflective of a very conservative management team and board of directors. We serve a very responsible and conservative membership, as indicated by our delinquency ratio which remains constant at or near .35. We believe that the above numbers and our 76 years history of conservative values positions ECU as a well regarded FI by both the Texas Credit Union Department and the National Credit Union Association.

While we do acknowledge that with the revised RBC-2 proposal the NCUA has made a number of positive changes, Educators Credit Union still believes that the NCUA has spent considerable time, money, and effort in offering a solution to a problem that does not exist. ECU shares the view of many in the CU industry and of one of the NCUA board members that the NCUA does not possess the statutory authority to adopt a two-tiered RBNW standard and that the time, effort, and money being expended may all be for naught. ECU feels perhaps the cart was placed in front of the horse and that this issue should have been resolved prior to the issuance of the first or second RBC proposal.

Still believing that there is no authority granted to the NCUA to create a two-tiered RBNW standard, ECU would nevertheless like to comment on some of the aspects of RBC 2:

- Credit Union asset level cutoff – ECU believes that the only positive aspect of increasing the asset threshold from $50 million to $100 million is to decrease the number of dissidents who would take exception to the NCUA regulation as approximately 80% of the credit unions in the U.S. would be exempted. This raises several concerns: a) a two-tiered RBNW system that is not applied to all credit unions; b) capital is not a concern in smaller credit unions when in fact they possess many of the same risks as larger credit unions; c) lack of consistency in the examination and supervision process between larger credit unions (+ $100 million) and smaller credit unions (- $100 million). What is the rationale for moving from $50 million to $100 million? If there is no empirical evidence to support this threshold, then ECU would support moving it to $500 million.

- Comparisons to the banking industry and the FDIC – Why, when knowing that there are differences in the business models for banks and credit unions, would the NCUA want to have as an objective the creating of a risk-based capital requirement comparable to the measures used by the FDIC? The fundamental differences in the business models of banks and credit unions significantly change the risk profile of the balance sheet between the two. We believe that history has shown that the credit union model presents far less risk to its insurance fund than the banks to the FDIC. Why then is it necessary to penalize the credit union industry with a complicated and arbitrarily higher capital standard because it would be more comparable to the banking industry and the FDIC rules?

- Implementation time line – The proposal calls for RBC-2 to be effective on January 1, 2019. Given the magnitude of the change and the potential of a huge impact on credit union balance sheets, this time period is not sufficient. Potentially, just when credit unions know with certainty what the new RBC requirements are and the actions they will need to take to prepare themselves for the impact of the new rules, interest rates may be higher, asset values may be lower, and the impact of restructuring a balance sheet will be negative for earnings and capital. Banking regulators have recognized this and have provided for longer implementation periods. The NCUA should do the same. A positive approach for the NCUA to take would be the approval of supplemental capital for credit unions. Even if supplemental capital were only to count toward meeting the risk based requirement, it would be a major positive step forward.

- Negative impact on CU membership – Because of increased capital pressures, credit unions will need to reevaluate the pricing of their loans, deposits, and other products and services. It is very likely that members will be paying higher rates for loans, earning less interest on deposits, and paying higher fees for products and services in order for their credit union to be in a position of being able to meet the well-capitalized risk based capital ratio requirement.

In summation, the NCUA has itself acknowledged the fact that consumer credit unions performed very well during the worst financial crisis since the Great Depression. Why then does the NCUA now determine the need for a revision of credit union capital standards, particularly one modeled on commercial bank Basel-style risk-based capital requirements? The worst financial crisis since the Great Depression revealed no shortcomings in the current credit union system. Why try to fix something that is not broke?

Respectfully submitted,

Joe Hutyra

Joe Hutyra, President/CEO
Educators Credit Union