The Partnership Federal Credit Union

April 24, 2015

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

Via e-mail: regcomments@ncua.gov

Re: Comments on Proposed Rule: Risk Based Capital, 12 CFR Parts 701, 702, 703, 713, 723 and 747

Sir,

I am writing on behalf of The Partnership Federal Credit Union, which evolved out of three individual and healthy credit unions who willingly chose to merge to be better together. Our primary (combined) field of membership includes the employees and their families of the (1) FDIC, (2) National Science Foundation, (3) Federal National Mortgage Association (i.e., Fannie Mae), and (4) U.S. Secret Service. We have 11,500 Members and $148M in assets. The Partnership FCU appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed amendments to the Risk Based Capital Rule.

As a moderately sized credit union, we find ourselves falling just outside of the relief provided by the definition of complex credit union. Many credit unions under $100M offer the same products and services and have similar asset categories as we do with merely $48M more in assets. Additionally, many credit unions larger than us are not at all complex. When you are slightly above the threshold as we are, this type of unilateral definition for complex credit union feels a bit like discrimination based on asset size. We are a healthy and well-run credit union. We are innovative and take extra care to ensure we have strategies that provide value back to our members. At our size, it is a daily challenge to ensure we are compliant, secure and competitive, and that we can attract and retain good talent in addition to members – all the while returning real value to our member/owners. We don't complain about such challenges; rather, we have taken concrete action to manage and surmount them. The fact is that we are not large enough to say we have significant economies of scale, and, therefore, have chosen to grow into our well-run institution.

Currently, our credit union has two strategies to advance our continued growth. The first is to maximize our organic growth within our fields of membership, which we are doing with creative programs that are meant to maximize member value, service and loan growth while managing risk and expense. As you may imagine, doing so is neither cheap nor easy, and requires talent and partnerships with vendors. While maintaining a strong net worth ratio of 9%, we carefully utilize much of our income to reinvest in our membership. In our opinion, failing to do so would be an imprudent use of our member's funds.

The second growth strategy is to share what we build with other fields of membership through mergers with integrity, hence achieving economies of scale. We pride ourselves on having created an infrastructure that is optimized to efficiently manage mergers. We have thus far chosen partners carefully to unite together while we are still strong enough to secure economies of scale all the while maximizing value to our collective membership.

There is no question that this proposed rule, if implemented in its current form, will provide significant challenges to our growth strategies. For example, if RBC2 passes, the requirement to subtract goodwill from capital in the RBC ratio will threaten our ability to consider strong and competent partners for merger. In making such an evaluation, we will need to provide for two goodwill valuations - one before due diligence even begins and the other as required just before merger. Regardless of who we partner with, we will need to rely on our capital not only to serve the new group (which is the case now), but also to calculate regulatory net worth. Essentially, the value of the acquired institution would not be taken into consideration nor allowed to support the ongoing institution. For us, if this part of our business strategy is eliminated, we may be forced to depend upon organic growth in a closed and shrinking field of membership.

The requirement to hold more capital may minimize our ability to provide value back to our members as we will be required to husband greater capital in a manner that would constrain our core mission which is a central focus of credit unions: to provide innovative, valuable and prudently designed services and products to our members/owners. The fact will be that this rule will apply to us because we are over $100M, and not at all because we operate our business in a “complex” manner -- or because we are having any difficulties in fulfilling the mandate of our charter.

I daresay that we are not alone in this dilemma. By protecting credit unions of less than $100M, you are encouraging the smaller credit unions to stay the same regardless of their individual complexity and growth needs. You are also taking away an option for their succession plans as you will be limiting credit unions such as ours to partner with them to help sustain their value back to their respective memberships. If their goodwill is not going to count for anything in the merger, they have no incentive to do something positive while they are strong and they may be more encouraged to sit back and wait until they are forced out of the industry. Depending upon the size of the credit union, mergers may still be possible but they will be completed by larger institutions.

Is this a solution in search of a problem? We have spent our entire existence trying to differentiate ourselves from a bank. We certainly cannot invest as a bank can, nor can we grow as rapidly as banks can. While attempting to regulate us more like a bank, you are adding to our restrictions and essentially may be putting all of the moderately sized credit unions out of competition in total. At a minimum, we respectfully request that you re-evaluate the determination of a complex credit union based upon size alone.

Thank you for the opportunity to comment on this proposed rule and for considering our views on risk based capital.

Sincerely,

Theresa B Mann

Theresa B. Mann
President/CEO