MARSHFIELD
MEDICAL CENTER
CREDIT UNION

April 27, 2015

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

RE: Risk Based Capital proposal RIN 3133-AD77

Dear Mr. Poliquin:

Thank you for the opportunity to comment on the second proposed risk-based capital rule, or RBC2. To give you a little background on our credit union: Marshfield Medical Center Credit Union is located in Central Wisconsin and serves nearly 4,500 members. With almost $60 million in assets, our credit union exists to serve employees of medical facilities within the state of Wisconsin and their family members. It is hard to believe that it was 11 months ago to the day when I submitted my comment letter on the first RBC proposal, and today, I write to you again about the same issues proposed in a different light. To begin with, I realize that our credit union will not be subjected to the new rule as proposed based on the increase in the minimum asset size threshold. However, as an advocate for the industry as a whole, I feel it is still important to write this comment letter to you today. While the second proposed rule implemented many of the changes that were pushed for in the 2,000+ comment letters submitted for the first proposed RBC rule, there are still fundamental flaws within the new proposal and the question still exists as to how the current proposed RBC rule will do little more than simply hamper the industry going forward.

It has been reiterated time and time again that changes to risk-based capital is necessary because of the outdated measures used in the current prompt corrective action (PCA) measurements. While I will not argue against the need to review any rule to determine if it needs to be updated, the way to which NCUA has gone about attempting to modernizing this calculation based on the proposed RBC2 rule is questionable at best. Please determine if the current PCA model is truly outdated and what the appropriate changes should be that are specifically tailored to *credit unions* and not what would be comparable to banks.

Since credit unions have come into existence, their mission has always been different from their banking counterparts. Credit unions exist to serve members that many banks would not help out, whether it was through deposit products offered or loans made to those who were being turned away. Even as credit unions continue to help out these members today, the credit union industry

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as a whole has weathered the storm that was the Great Recession and has continued to show profitability. Credit unions do not make decisions based solely on whether it is good for their bottom line; rather, they make decisions that help out their members' lives. Implementing a rule, such as the proposed RBC rule, will hamper some credit unions from helping their members out because of arbitrary figures within the proposal, such as 35% concentration of assets in 1st lien real estate lending, requiring the amount of capital to be maintained to greatly outweigh the benefit to both their members and their financials. Will credit unions continue to approve these decisions for the benefit of their members? Some will, and some will not want the regulatory scrutiny that will come with this. Gone are the days when everyday decisions are based solely on what's best for the member and the credit union. Instead, management will begin to make decisions that are solely supportable by present capital levels. As I said in my comment letter to the first RBC rule, financial institutions are in the business of taking risks. Therefore, it is impossible to run a credit union without taking on a hint of risk in some way, shape, or form. Am I advocating for credit unions to take on as much risk as possible for the sake of earnings? Absolutely not. History, though, has shown that the industry has done a good job of balancing this risk/reward factor, and thus, the need for RBC2 is very much debatable to this day.

Many of the arguments presented by NCUA staff in favor of the new proposal are to make the risk-based capital calculation comparable to capital requirements for the banking sector. As I highlight in the previous paragraph, the mentality that drives the decisions behind the way credit unions are run is very different from banks, especially the "Too Big To Fail" banks. Requiring credit unions to hold more capital simply to "justify" the potential amount of risk present in a balance sheet will only hurt credit unions in the long run. Credit unions will take lower risks within their balance sheet while working to raise the sufficient capital required to venture into other asset classes (for example, consumer lending vs. 1st lien real estate lending). Also, this new RBC proposal does not address the fact that this proposal treats each and every credit union the same, regardless of differences in membership base, geographic location, economic factors, etc. Also, the loose classifications of assets does not take into account a number of other risks, such as credit risk, liquidity risk, compliance risk, etc. For example, under both proposals, a portfolio of 3/1 adjustable rate mortgages (ARMs) written to an average credit score of 750 that makes up 35% of a credit union's balance sheet would be comparable to a portfolio of 30 year fixed rate mortgages that are written to an average credit score of 620. Are the risks for both portfolios "equal"? According to the calculation, the amount of capital required to support both portfolios would be the same. The fact is that a standardized calculation of "risk" will never be the right way to measure risk at each credit union, as each credit union is very different in their operations, their expertise levels, etc.

Had credit unions been subjected to this proposal, would the NCUSIF fund been any safer over the past 7+ years of the Great Recession? How does this calculation factor in fraud losses, which accounts for approximately 41% of credit union failures in the past 10 years? It is also unfair in your calculations to downplay credit union's present capital buffers when assessing how much capital will need to be raised to maintain status quo within the industry. Credit unions work to maintain sufficient capital levels to support the risk that they've determined is proper for their institution. Simply stating that a credit union will remain well capitalized without realizing the repercussions in the form of shrinking overall capital levels is not respectful to those credit unions. As I reiterated earlier in this letter, risk will always be present in credit unions. Please allow credit unions to turn their focus to their members needs as opposed to worrying about appeasing their regulatory needs first and foremost.

To conclude my comment letter, I hope the board seriously considers withdrawing the rule as proposed. At a minimum, I hope that the board puts in the necessary research looking back at the history of credit unions to justify any implemented rule, not just indicating the amount of added capital needed now to successfully maintain the status quo of credit unions. If this rule is deemed justified, then a backwards analysis of how the rule would have played out over the last 10 years would be in order. I have purposely left out how our own credit union measures up in this latest version of RBC. Instead of providing proof that would be supportive for or against the rule and the proposed concentrations and risk weights, I want to emphasize my opinion that the rule in its entirety is unnecessary, and changing risk weights of certain asset classes or concentrations of certain asset types only masks the underlying issues within the proposal. Again, this type of calculation **<u>may</u>** be a good indicator test to alert examiners should a credit union not have sufficient capital to justify risks taken within the balance sheet. However, to hold credit unions to capital requirements proposed within this rule will hamper the growth of the industry, and may play a crippling role in the demise of the credit union industry, hurting the millions of Americans in this country who rely on credit unions for their financial services. I hope that after reading through the thousands of comment letters for this second proposal, everyone involved at NCUA recognizes that credit unions are not run the same as banks, and therefore, should not be regulated like banks. Please ensure safe and sound regulations are in place that are justified in the regulation of credit unions, now and in the future.

Sincerely,

David Murphy
Internal Audit Manager
Marshfield Medical Center Credit Union

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