members choice credit union

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Mr. Larry Fazio
National Credit Union Administration
1775 Duke Street
Alexander, VA 22314-3428

Sent via e-mail to: regcomments@ncua.gov

Dear Mr. Fazio,

This letter represents the views of Members Choice Credit Union regarding the NCUA's proposed regulation regarding Prompt Corrective Action ("PCA") and a change to the existing Risk-based Capital ("RBC") standard. Members Choice is a state-chartered, federally-insured community credit union based in Houston, Texas, which serves over 42,000 members. We appreciate the opportunity to comment on this very important issue.

Is this change to the risk-based standard appropriate or necessary?

The current PCA standard, as determined by Congress, empowers the NCUA to establish capital standards for federally-insured credit unions, including a standard of six (6) percent as "adequately" capitalized and seven (7) percent as "well" capitalized.

These standards are based on the leverage ratio of the nation's credit unions. These standards already provide the nation's credit unions with a "buffer" over the standards of the nation's commercial banks. It must be pointed out that this standard has served us well as credit unions have demonstrated a higher level of resiliency than the nation's banks as more banks failed after the last recession and approximately $800 billion of tax-payer dollars were required to re-capitalize the nation's banks. It should also we noted that through the oversight of the board of directors of the nation's credit unions, credit unions already tend to operate with higher degree of capital than the nation's commercial banks.

In addition, we feel the question must be raised as to the legal authority of the agency to create a RBC well-capitalized standard that does not exist under the current risk-based net worth standard. The agency's position on this question appears to be the need to add yet another "buffer" in the way of higher RBC capital standards.

The need for a level playing field

In the event the agency moves forward on this proposed regulation, in despite of the above mentioned concerns, then we feel it is extremely important that credit unions be treated in a fair manner, such that we won't be at a disadvantage as we compete in the market place with other financial institutions.

We appreciate the agency's effort to modify the proposed regulation from the original version from 2014. Many of the areas of our previous letter were addressed.

However, there continues to be disparate treat of the nation's credit unions in terms of the risk-weights applied to assets on our balance sheets vs. the exact same assets on the balance sheets of community banks.

Specifically, we're troubled by the favorable treatment given community banks under their proposed Basel-lll standards for real estate and business loans compared to credit unions. Also interesting is that credit unions are given more favorable weighting on consumer loans compared to community banks. This can easily be explained by both our respective legacies mixed in with a dose central planning. However, the end result is different treatment by regulators of the same loan, depending upon which balance sheet it ultimately resides. In an unencumbered free market, this should not be the case.

Will this new standard really protect our members from the next financial crises?

The Bank of International Settlements meets periodically in Basel, Switzerland, to assess the need for revised capital standards for the world's too-big-to-fail (TBTF) banks. As a result of these meetings, they have created Tier 1 capital standards, Tier 2 capital standards and now the Basel-lll capital standards. All of these standards have tried to determine the correct minimums for risk-based capital.

However, as stated by industry financial analyst, Michael A. Seamans (Dallas Federal Reserve Bank: "When Gauging Bank Capital Adequacy, Simplicity Beats Complexity") "Financial crisis experience suggests it is unclear whether ratio complexity enhances the ability to identify failure and is better than a simpler ratio." I would suggest that the current net worth ratio, with our current PCA standards, meets our needs today and into the future.

I believe the agency already has the regulatory tools and authority necessary to adequately address any individual credit union that is operating with excessive credit, liquidity or interest-rate risk, without creating this, or any other new NCUA regulations. Additional redundant regulation only adds to our regulatory burden.

Thank you for this opportunity to share our thoughts regarding this proposed risk-based capital regulation. We hope our concerns are given due consideration as this regulation has the potential to severely limit the growth and opportunities of this credit union well into the future.

Sincerely,

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cc: Credit Union National Association
Cornerstone Credit Union League