



Delivered to the NCUA Board as an email: regcomments@ncua.gov

February 13, 2015

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

Re: Charles Bruen, President & CEO, First Entertainment Credit Union, Comments on Proposed Rule: Risk-Based Capital

Dear Mr. Poliquin:

I appreciate the opportunity to provide comments to the National Credit Union Administration (NCUA) Board about the second proposed rule concerning risk-based capital. First Entertainment Credit Union is an over \$1.1 billion in assets, 70,000-member federally insured California-chartered credit union located in Hollywood, California. Our "well-capitalized" credit union ended 2014 with a net worth to total assets ratio of 9.51%.

The NCUA Board is to be commended for responding to the input that it received from the over 2,000 comment letters on the initial proposed risk-based capital rule last year. The newly-proposed rule reflects considerable thought and constructive attention to many of the concerns that were expressed. However, I continue to urge the NCUA Board not to adopt an unnecessary, complex, and costly rule that is better suited for a global banking entity than it is for even the largest credit union.

Key Points Made in this Comment Letter:

- The NCUA's risk-based capital rule is overly complex and inappropriate for credit unions and their business model.
- The proposed rule's two-tiered capital system for "complex" credit unions has raised serious legal doubts concerning the NCUA Board's authority to promulgate it, which would lead to operational uncertainties for credit unions.
- The NCUA Board has not made a convincing benefit vs. cost business case for the proposed rule.
- The NCUA Board, and its fellow regulators, have picked the wrong time and place, and picked the wrong economic environment, to so dramatically raise credit unions' costs of doing business

The NCUA's risk-based capital rule is overly complex and inappropriate for credit unions and their business model that includes no capital stock, and that has a heavy reliance on retained earnings for financial health and growth. NCUA's risk-weights also experimentally incent and dis-incent credit union lending and investment behaviors in unprecedented and untested ways. Instead, the current approach to measuring net worth, and the current Prompt Corrective Action (PCA) regulatory approach, should be continued. If there are outlier credit unions that NCUA believes are taking on too much risk, the agency should proactively deal with the situation through the examination and supervision process.

I also believe that a serious-enough doubt has been raised about whether the NCUA Board has the legal authority to establish a separate risk-based net worth requirement for each of "well-capitalized" and "adequately-capitalized" credit unions that are designated as "complex." Any rule that included such a flaw, would cause legal problems. That in turn, would lead to operational uncertainties and, perhaps, even to unintended negative consequences, that could undermine the credit union industry's safety and soundness. The legal question, by itself, should be reason enough, to drop this proposed rule.

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Unnecessarily increasing required capital at already “well-capitalized” First Entertainment Credit Union, as well as for the entire credit union system, would trigger increased costs that some have estimated to be collectively well into the hundreds of millions of dollars. That does not count the credit union staff costs for the time redirected away from other tasks to spend on compliance with the proposed rule. There would also be opportunity costs for the funds going to the credit union’s “safety and soundness cushion” instead of directly into member products, services, and innovations. The potential negative impact on marketplace competitiveness is difficult to measure.

The NCUA Board has not made a convincing benefit vs. cost business case for the proposed rule. The NCUA Board, instead, appears to be doing it because the other agencies did it; those agencies apparently did it because Basel III said they should. That is not a compelling reason to impose such burdensome compliance costs on credit unions at a time when every dollar of earnings counts.

Rather than imposing on credit unions a complex and costly capital system designed for globally active international financial institutions, the NCUA should look at the larger picture. The NCUA Board, and its fellow regulators, have picked the wrong time and place, and have picked the wrong economic environment, in which to so dramatically raise the cost of doing business.

Our credit union’s summarized comment about the proposed risk-based capital rule is that we don’t need it, we don’t want it, and chances are you don’t have the authority to do it anyway. Our recommendation is to leave well enough alone.

Sincerely,

A handwritten signature in black ink that reads "Charles Bruen". The signature is written in a cursive style with a large, looping initial "C" and "B".

Charles Bruen
President & CEO
First Entertainment Credit Union