_Regulatory Comments

From: Jerry Wise <no-reply@cuanswers.com>
Sent: Wednesday, February 18, 2015 4:09 PM
To: _Regulatory Comments
Subject: Risk-Based Capital Comment

To: Regulatory Comments
From: Jerry Wise
Greensboro Municipal FCU

02/18/2015

Dear Mr. Poliquin:

I believe this rule is overreaching as many of the failures this proposed rule is trying to mitigate do not even take into consideration the reasons for the losses during the great recession. As has been depicted during the board meeting and in the proposal, over 40% of failures were the result of fraud; all of us have been following the St. Paul Croatian's fraud loss dilemma, which cost the insurance fund $170 million dollars to date. Economic policy had nothing to do with many of these losses, regardless of the shape of credit unions' balance sheets. The idea that passing a rule—a seemingly typical government reaction—can stop fraud, eliminate mismanagement and prevent external circumstances from decimating credit union's market environment is wrong. Effective supervision is not rule making, it is intelligent supervision and patient reorganization when problems arise. This is lacking in our cu regulatory community today.

As mentioned by the Hon J. Mark McWatters, the NCUA cannot just "piggyback" on to the FDIC unless they have the authority from Congress to do so. The plain language of the statute contradicts the NCUA's interpretation. After all, if the NCUA was to be given the same PCA authority as the FDIC, Congress could have done exactly that. The clear intent of Congress was to create a separate system for our industry, and the NCUA must operate within those confines. Also for many years the NCUA has operated and stated that they do not have the authority to implement a two-tiered RBNW system but now you are stating that you do have this authority when the statute has not changed. This alone will put the NCUA's reputation at risk which will ultimately put the entire credit union movements reputation at risk. How? By saying one thing but when you have to you do something exactly the opposite. The Bankers will jump all over this one and use it to their advantage when we try to loo sen other regulatory restraints.

I believe the RBC2 rule would undermine the cooperative and diverse nature of our charters by creating a one size fits all over-reaching capital formula. This is a massive flaw of the NCUA's structure as regulator and insurer. We believe this is a myopic view of cooperatives and only considers our equity funding mechanism. A cooperative is a like group of individuals banding together to own a business that is guaranteed to meet their similar financial needs. The arguments and logic of the rule misapplies what is done successfully at a local or institutional level, to an entire system. Because of this I would respectfully recommend the rule be thrown out and at best become a matrix the NCUA would use in the exam process only.

For those of us who remember when the airline industry went into crisis with mergers and failures, their credit unions survived to serve their members; when the auto industry closed plants and had layoffs, their credit unions converted to communities to be there for the workers and families; when the housing crisis hit in California, Florida, and Arizona, credit unions rewrote billions of mortgage loans to keep people in their homes until they got back on their feet (this is what the banks should have done and shows you the philosophical differences between the two organizational structures so don't measure capital the same way, it won't work, we're not a bank). The rule undermines the core of credit union effectiveness by having government rules, not the member-owner's well-being, be the focus of business strategy and a reminder of the credit union difference.

I would like to recommend that if the NCUA truly believes that this rule will uncover the outliers and those credit unions that should operate with higher levels of capital than put this rule to the test similar to those currently being performed like the 17/4. The OCC has numerous ratios and tests which they perform based upon call report information such as the canary ratios. These ratios are designed to uncover outliers and direct supervision in these areas to review. If this proposal is adopted it will be more difficult to change, so lets walk before we run with this one.

Respectfully,

Jerry Wise
Greensboro Municipal FCU