~San Mateo~
Credit Union

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

April 1, 2015

RE: Commentary regarding round 2 of NCUA Risk Based Capital (RBC) proposal

I am the CFO for San Mateo Credit Union for the past 22 years and served previously as the AVP-Controller for another credit union for 10 years. In my 32 years of experience, one thing is clear…no one ratio makes or breaks the credit union. It is the totality of various ratios and the way the credit union operates that determines their success or failure. While the RBC proposal is a noble effort with good intentions, it seeks to have each credit union and NCUA expend an enormous amount of energy and resources to boil each credit union's financial affairs down to one ratio (RBC).

Chairman Matz cites in the February 2015 NCUA Report, "In the last 10 years, 192 credit unions failed. Yet, 24 months before they failed, their average net worth ratio was 12.1%." This factoid tells me the net worth ratio is not a leading indicator or a barometer of future success or failure of the credit union. It is a ratio to indicate the financial strength of the organization to weather short-term economic downturn. The RBC proposal is seeking to upgrade the RBC calculation on the flawed assumption this upgrade will detect and prevent future credit union failures. I disagree. It will create more work and waste more resources than it will help.

In the same article, she states, "in the next three-to-four years, this rule would require 27 complex credit unions with high-risk portfolios to bolster their capital bases." It would serve us better to supervise these 27 credit unions versus encumber the other 1500 credit unions (that have assets greater than $100mm). This is comparable to trying to kill an ant with a sledgehammer.

I belong to a local group of credit union CFOs. Each month we report our financial results. A few years ago, one of my fellow CFOs reported extraordinary loan growth. As a group, we asked how he was able to achieve these results. He proudly explained the strategy and "there is no down-side risk." I thought the strategy seemed too good to be true, but worth a deeper look. I had our VP-Lending do more research. Her recommendation was "we should not do it." A few years later, that credit union folded because the downside risk knocked them out. We were able to identify the risk without RBC by using professional skepticism and commonsense. An examiner with a good education and real life experience in the fundamental operation of a credit union is the greatest resource available to NCUA. NCUA should expend resources to develop their examiners rather than waste resources on an expensive calculation tool (RBC) that may prove to be ineffective.

Thank you for your consideration.

Sincerely,

Jack Chinn

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