COMMUNITY first
CREDIT UNION

April 8, 2015

Mr. Gerard Poliquin
Secretary, NCUA Board
1775 Duke Street
Alexandria, VA 22314-3428

Ref: NCUA Risk-Based Capital Proposed Reg - 2

Dear Mr. Poliquin:

I am the Chief Executive Officer of Community First Credit Union. I have been in the credit union industry since 1985. In addition to my almost 30 years of managing credit unions I am a registered CPA and hold a Masters of Business Administration with emphasis in accounting and taxation.

I appreciate that the NCUA has listened and responded to the numerous comments received regarding the first version of this regulation. However, the revised regulation is still ill-advised for numerous reasons.

1 – Lack of justification for this proposal
The NCUA continues to reiterate that this regulation is intended to model the FDIC approach. While that is a poor model for a number of reasons, the primary reason it is a bad guide to follow is that the risk profile of credit unions is completely different from banks. During the financial crisis the loss ratio for natural person credit unions was $0.26 per $1,000 insured, compared to $2.30 per $1,000 for banks. Why do we need the same capital model if we statistically do NOT have the same risk model?

Furthermore, the NCUA appears to be trying to build a credit union industry without losses. That is akin to a credit union trying to build a loan portfolio without losses. Sure, we could do it, but it would be a very small loan portfolio and not be profitable. The NCUA actions will result in a risk free but very small credit union industry.

2 – Individual Capital Requirement
While we are very pleased to see the ability for an individual examiner to require additional capital be removed from the proposed regulation. However, the revised regulation still allows the possibility of an additional capital requirement be placed upon a credit union. This is inappropriate for two reasons:

First, I question the legality of NCUA requiring a higher capital level than required by current law.

Second, in the aftermath of the corporate meltdown, the NCUA widely missed estimating the losses. As demonstrated by the most recent revised loss estimates, even with the best resources available NCUA cannot predict future events. When the initial huge loss projections were made to cover the corporate credit union losses our credit union commented to the NCUA that their proposals to immediately expense those losses was erroneous and was causing estimated corporate losses to become real natural person losses. We distinctly remember the response – David Marquis the Executive Director at the time replied – "the losses are REAL". I continue to ask after the recent large, multi-billon dollar revisions to those loss estimates if Mr. Marquis still feels the same way today? Why the NCUA continues to have the hubris to feel they have the expertise to predict future events in spite of their recent performance is beyond me.

3 – Interest Rate Risk
I am pleased to see the Interest Rate Risk features of the original proposed regulation removed. As NCUA continues to work on this area I implore you to strike a balanced approach and refrain from the bias that you can predict the future, and then impose your prediction on the credit union.

For example, Chairwoman Matz in a CU Journal article published on January 6, 2014 states that "rates have started to rise, so it's not a matter of when anymore, it's how much." Apparently, Ms. Matz believes she can predict movements in interest rates. And this is reflected in many recent NCUA proposals by including a bias against a credit union managing that risk for all environments substituted with regulatory bias against longer term assets. This ignores the possibility the there are other interest rate scenarios and ignores the liability side of the balance sheet. Chairwoman Matz has had 15 months for her prediction to be true. Yet, since the time of Ms. Matz's bold prediction of rates rising, rates have actually fallen. **The 10-year treasury on January 6th 2014 was 2.98% and today stands at 1.89% - an astounding 109 basis points lower!** Despite Ms. Matz's assertion, perhaps "when" is still a question. I pray the NCUA and the Chairwoman are humble enough to admit that perhaps they are not all knowing.

Just like a broken clock, some day Chairwoman Matz will be correct, I'm sure we'll hear about it. Even though she has been wrong more often.

It is time for the NCUA to recognize that their RBC proposal is a solution in search of a problem and completely withdraw the regulation.

Sincerely,

Todd Sheffield
Chief Executive Officer