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April 10, 2014

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

Re: Proposed Rule – Prompt Corrective Action – Risk-Based Capital (RIN 3133-AD77)

Dear Mr. Poliquin:

Performance Trust Capital Partners, LLC (PTCP)[1] appreciates the opportunity to submit comments on the above-referenced notice of proposed rulemaking (NPR).

The National Credit Union Administration (NCUA) published the NPR in the federal register on February 27, 2014. The stated purpose of the NPR is to "amend NCUA's regulations regarding prompt corrective action (PCA) to restructure the part, and make various revisions, including replacing the agency's current risk-based net worth requirements with new risk-based capital requirements for federally insured 'natural person' credit unions." The NPR indicates that the new risk-based capital requirements will be "more consistent with NCUA's risk-based capital measure for corporate credit unions and the regulatory risk-based capital measures used by the Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve, and Office of the Comptroller of Currency (Federal Banking Agencies)." The proposed rule changes would potentially "revise the risk-weights for many of NCUA's current asset classifications; require higher minimum levels of capital for federally insured natural person credit unions with concentrations of assets in real estate loans, member business loans (MBLs) or higher levels of delinquent loans; and set forth the process for NCUA to require an individual federally insured natural person credit union to hold higher levels of risk-based capital to address unique supervisory concerns raised by NCUA."

PTCP fully supports the NCUA's efforts to address perceived weaknesses in the current capital framework. We also recognize the enormous challenges that the NCUA faces in developing a system that aims to fairly and accurately reflect perceived risks across all

[1] Founded in 1994, Performance Trust Capital Partners, LLC helps community financial institutions maximize profitability potential through strategic financial advisory services. By deploying a disciplined analytical approach to investing, the firm provides objective, transparent, and unbiased advice that allows clients to make confident and informed investment decisions. The company also has a strong educational focus, teaching decision makers how to make beneficial choices for their institutions with the aim of producing consistent, significant improvement in their long-term performance.

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affected institutions. For these reasons, PTCP is providing specific comments on the NPR to assist the NCUA in evaluating the impact of the proposed changes, and in considering adjustments to them.

In general, we believe the broad changes that are being proposed to align capital requirements with those of the Federal Banking Agencies is a positive step toward providing a more level measure of consistency and accountability among all financial institutions. We also acknowledge the NCUA's attempt to keep the new requirements relatively simple and to minimize the implementation burden on affected institutions. These efforts, along with the extended time frame for implementation, will allow credit unions to effectively adjust to the new ruling when finalized, and to successfully restructure their balance sheets to ensure compliance.

Although PTCP is in favor of the NCUA's intentions as outlined in the NPR, we believe there are several aspects of the proposal, as currently formulated, that could potentially run counter to the NCUA's stated objective of reducing the risk sensitivity of the credit union capital framework. The comments provided below reflect the specific aspects of the proposal that, in our view, will have the most significant negative, and unintended, impact on the stability of credit unions in general, and on our credit union clients, in particular. Each of our comments follows our paraphrase of the relevant sections of each specific NPR category that we feel must be addressed.

NCUA Goals for the Proposed Rule

The summary section of the proposal states that the NCUA set forth specific goals when developing the risk-based capital requirements under the proposed rule. Those goals are set forth as follows. "First, the [capital] requirement should address weaknesses in the net worth ratio measure. Second, the requirement should address credit risk, interest rate risk, concentration risk, liquidity risk, operational risk, and market risk. Third, the requirement should enhance the stability of the credit union system. Fourth, the rule should rely primarily on data already collected on the Call Report to minimize additional recordkeeping burdens. Fifth, the requirement should be, given the preceding four goals, as easy as possible to understand and implement."

> *PTCP Comments:* First, regarding the second goal, we question whether a standardized capital ratio is an appropriate and effective measure to mitigate such a broad range of potential risks. While we understand that the Federal Credit Union Act (FCUA) requires that the risk-based capital requirements "take account of any material risks against which the net worth ratio required for an insured credit union to be adequately capitalized may not provide adequate protection," we do not believe that FCUA requirement should be interpreted to cover the broad range

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of risks that are identified. The attempt to capture these risks is highly inconsistent with the comparable Basel III guidelines and results in individual risk weights that could create negative incentives for appropriate risk taking. We believe the proposal oversimplifies the control mechanisms for these risks and creates a framework that elevates focus on certain types of risk at the expense of attention to others. The risk-weight categories, in particular (which are discussed in more detail below), appear to create incentives for institutions to reduce interest rate risk while substantially increasing credit risk. Those same risk weights also seem to ignore market liquidity factors applicable to investments, and provide inducements for institutions to purchase lower-yielding securities that could ultimately diminish capital accretion and earnings over time. While higher levels of capital ultimately provide a level of protection against all risks, the current risk-weight alignments in the proposal could undermine the NCUA's objectives of improving on existing capital guidelines and aligning with comparable bank guidelines.

Second, with respect to the goals in general, they are keenly focused on preventing risks, but they are silent on the need for credit unions to meet member demands. Requiring higher levels of capital and reducing balance sheet risks might prevent some potential failures, but these requirements could also limit potential growth opportunities for individual credit unions and weaken the ability of credit unions to broadly serve member needs. The NCUA's stated mission is to facilitate the availability of credit union services to all eligible members "especially those of modest means through a regulatory environment that fosters a safe and sound credit union system." It is possible that requirements established to control risk could go too far and limit the capability of credit unions to appropriately support their constituencies.

PTCP Recommendation: PTCP offers the above comments as a preamble to the various suggestions and recommendations that follow. In general, we believe that efforts to control such a broad range of risks through too simplified a capital construct could actually increase risk and potentially limit the growth and operating capacity of the credit union industry as a whole. Our specific recommendations below are intended to help provide additional perspective on the defined approaches that we believe should assist the NCUA in finalizing a more effective and beneficial ruling.

Section 702.104(b) of the FCUA – Risk-based Capital Ratio Numerator

The NPR provides "that the risk-based capital numerator is the sum of the specific certain capital elements listed in §702.104(b)(1), minus certain regulatory adjustments listed in §702.104(b)(2). The proposed numerator for the risk-based capital ratio would continue to consist primarily of the components of a credit union's net worth. In order to capture all of the material risks while keeping the calculation from becoming overly complex, the proposed rule would add some additional equity items while other specified balance sheet items would be subtracted. The goal of the proposed risk-based capital ratio numerator is to achieve a measure that reflects a more accurate amount of equity and reserves available to cover losses."

PTCP Comments: The attached Table 1 compares the existing NCUA capital guidelines with both the newly proposed NCUA capital guidelines and the Basel III capital guidelines for banks. The attached Table 2 compares the existing NCUA numerator guidelines with both the newly proposed NCUA guidelines and the Basel III numerator guidelines for banks. There are two proposed changes to the numerator that will have a significant impact on the capital ratios of nearly all covered institutions. The first and more significant change involves the exclusion of the NCUSIF Deposit. It appears that because the actual Share Insurance Fund reflects NCUSIF deposits as NCUA equity to cover losses, the NCUA has determined that the deposits should not be allowed to qualify as core capital in the risk-based capital calculation of individual credit unions. As a result, the NCUSIF deposit is deducted from both the numerator and the denominator of the final risk-based capital calculation. While this might seem like a fairly harmless deduction, on a typical balance sheet with a 10% capital ratio and deposits making up 80% of total liabilities, this change alone would result in a 73 basis point reduction to the calculated risk-based capital ratio, dropping the ratio from 10.00% down to 9.27%.

The other significant change to the numerator involves a reduction in the level of loan loss reserves that can be included as capital. Under the existing rule, the Allowance for Loan and Lease Losses (ALLL) is limited to 1.5% of total risk-weighted assets. Under the new proposal, the ALLL allocation is reduced and limited to just 1.25% of total risk-weighted assets. The proposal states that lowering the percentage provides an incentive for granting quality loans and recording losses in a timely manner. However, it could also serve to reduce lending to consumers with slightly higher risk profiles. In either case, reducing allowable reserve levels could potentially lead to double counting of loss coverage during periods of financial stress. Furthermore, the determination to limit the ALLL inclusion was made, in part, because the purpose of the ALLL is to "absorb incurred [losses] rather than unexpected losses." However, with accounting conventions moving to a "life-of-loan" estimate, it appears that future reserves will be required to capture expected and unexpected losses on an ongoing basis. Both

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the NCUA proposal and the Basel III guidelines fail to acknowledge the impact of this potential change in their proposals.

When combining the effects of the loan loss reserve adjustment and the share deposit deduction, these two changes together create a 98 basis point decline in the calculated risk-based capital ratio for the balance sheet scenario identified above. For credit unions with more sensitive capital positions, such a reduction could have significant implications for the growth and ongoing operating initiatives of these companies. For the industry as a whole, these deductions, along with the higher general capital ratios, could also force many credit unions to seek a more accommodating capital environment through alternative charters.

The above notwithstanding, PTCP agrees with the proposal's inclusion of the capital conservation component within minimum capital requirements for the "well-capitalized" category. The staggered set of restrictive covenants in the Basel III framework creates a confusing and potentially contradictory set of requirements. The inclusion of the capital conservation buffer in the standardized measure for credit unions, in our view, creates a more simplified and transparent expectation for the "well-capitalized" category.

PTCP Recommendations: Deducting the NCUSIF deposit suggests that the deposit is worthless and has no real insulating impact on capital. In contrast, PTCP believes that the deposit is a real deposit for accounting purposes that can be returned in the event of a merger or conversion. PTCP also believes that the insulating effect of the deposit is provided through availability of a specific allocation in the Share Insurance Fund. For these reasons, we suggest that the NCUA reconsider the proposal to remove NCUSIF deposit from allowable capital. Additionally, with regard to the ALLL, PTCP believes that the existing allocation of 1.5% more appropriately captures the insulating contribution that the ALLL provides to capital, particularly during times of economic stress. Reducing the ALLL allocation at this point in time would be inconsistent with the expected accounting conventions for future allowance methodologies.

Section 702.104(c) of the FCUA – Total Risk-weighted Assets

According to the NPR, when developing the proposed risk-weights, "the NCUA reviewed the Basel accords and both the U.S. and international banking system's existing risk-weight measures. The NCUA also considered 'comments contained in material loss reviews prepared by the NCUA Inspector General and GAO comments in their reviews of the financial services industry's implementation of PCA.' Since the FCUA requires the risk-based measure to include all material risks, the NCUA determined that 'they needed to give consideration to a variety of risks, including credit risk, concentration risk, market risk, interest rate risk, operational risk, and liquidity risk.' In light of this review, the NCUA has developed a proposed risk-weighted capital framework that 'requires a complex credit union to calculate its risk-weighted asset amount for its on- and off-balance sheet exposures…by assigning on- and off-balance sheet assets to broad risk-weight categories according to the asset type, collateral, and level of concentration. A credit union would determine its total risk-weighted assets by calculating (1) its risk-weighted assets, minus (2) goodwill and other intangibles, and minus (3) the NCUSIF deposit.'"

PTCP Comments: General Comments on Material Risk Coverage: Section 216(d)(2) of the FCUA states that "The Board [of the NCUA] shall design the risk-based net worth requirement to take account of any material risks against which the net worth ratio required for an insured credit union to be adequately capitalized may not provide adequate protection." The NCUA has interpreted this section as a mandate to "give consideration to a variety of risks, including credit risk, concentration risk, market risk, interest rate risk, operational risk, and liquidity risk." In doing so, there is an implied assumption that all of these risks are material and that adequate protection from these risks is not provided in the primary net worth ratio. There is also an implied assumption that the variety of risks identified can be adequately and appropriately addressed within a standardized risk-based capital framework.

The NCUA's attempt to capture this broader range of risk in the NPR is a substantial departure from the Basel III framework established by the Federal Banking Agencies. The Basel III framework assigns risk-weights based on the inherent risk of loss that exists within various asset classes. Broader risks for various operational components are not included in the Basel III guidelines, other than through the minimum capital ratios and capital conservation buffer that are included in the Basel III framework. In contrast, the NCUA proposal goes far beyond inherent loss allocation and attempts to quantify risk exposure through expansion of risk-weight allocations by concentrations and weighted average life thresholds. As mentioned above and discussed in more detail below, these expansive allocations could run counter to the NCUA's risk-limiting intentions and could create incentives for credit unions to potentially engage in higher risk activities.

PTCP Recommendation: While it is understood that the NCUA is attempting to maintain some of the restrictive components of its existing capital regime in the new framework, the intent of the proposal was to create a capital measure that is "more consistent with the…risk-based capital measures being used by the Other

Federal Banking Agencies." In our view, the inherent loss methodology applied in the federal banking framework is sufficient to capture the "material risks" not covered by the primary net worth ratio. As such, we recommend that the NCUA adopt risk-based categories that are more consistent with the federal banking framework.

PTCP Comments on Risk-weights for Non-Investment Assets: The attached Tables 3 and 4 provide a comparison of the proposed risk-weights for Non-Investment Assets with both existing guidelines and the Basel III guidelines for banks. Rather than just assign standardized risk-weights based on the inherent risk of loss in each particular loan class, as provided in Basel III, the NPR expands the current NCUA practice of assigning risk-weights based on specific concentration parameters of individual loan classes. In the proposal, other real estate loans have been separated from first mortgage loans and assigned individual concentrations parameters ranging from 100% to 150%. Member business loans, which are already limited by regulation to 12.5% of total assets, are also assigned new and increased concentration parameters ranging from 100% to 200%. In contrast to these categories, consumer loans, which conceivably have a higher risk profile than either secured real estate loans or member business loans, do not receive a concentration bifurcation, and instead receive a standard risk-weight of just 75%, regardless of concentration level.

All of the Non-Investment risk categories, with the exception of non-delinquent consumer loans, have the same or significantly greater weights than the standardized risk-weights under Basel III. There is no clear explanation provided as to how these risk-weights are derived, nor why they are so different from the corresponding risk-weights assigned under Basel III.

In addition to the generally higher weightings (which create higher equivalent capital requirements for credit unions compared to their bank counterparts), the various risk-weight assignments in the NCUA's proposal create incentives for credit unions to take on certain types of risks, regardless of whether or not those risks are appropriate for the individual organization. The risk-weight mechanisms appear to have a strong bias toward consumer lending, regardless of whether the consumer loan is secured or unsecured. As an example, according to the proposal, an unsecured, non-delinquent consumer loan would receive a risk-weight of 75%, which is lower than either a secured member business loan at 100% or a secured other real estate loan, also at 100%. Furthermore, if either of these latter loan classes exceeds 25% of total assets, their risk-weights would increase to 150% and 200%, respectively.

Under the proposal, regardless of the nature of the lending opportunities that might be available in a credit union's individual market, every credit union will be able to make unlimited unsecured consumer loans and thereby receive capital relief, but at the same time they will be penalized when other loan categories exceed prescribed concentration limits, no matter how high quality these loans might be; the risk-weights are agnostic to loan underwriting standards or collateral coverage. While the stated purpose of these risk-weights is to mitigate risk, in effect, the risk-weightings are more geared toward influencing credit union product and service mix than preventing excessive capital risk.

PTCP Recommendation: As described above, we believe the risk-weights for non-investment assets are not clearly supported and are not commensurate with the risk-weight assignments prescribed in Basel III. If the NCUA believes that credit unions should engage in certain types of lending activities, it should prescribe those activities through restrictive mechanisms outside of the regulatory capital process. We believe that the capital calculation should be exclusively employed to accurately reflect the inherent risk to the institution's capital base in light of the actual risk that exists within each asset category. Additionally, as proposed, the differences between the Basel III framework and NCUA proposed framework would create significant disparities between the relative capital requirements of the two industries. As such, PTCP recommends that the NCUA adopt guidelines that are more consistent with the risk-weight guidelines that are established by Basel III.

PTCP Comments on Weighted Average Life Limits on Investment Assets: The attached Tables 5 and 6 provide a comparison of the proposed risk-weights for Investment Assets with both existing guidelines and the Basel III guidelines for banks. In general, the NPR substantially reduces the risk-weights from those of the existing guidelines for all of the different investment classes. In particular, the proposal assigns a zero risk-weight to investments unconditionally guaranteed by the U.S Government, regardless of their weighted average life position.

Although these new risk-weights represent a significant change from the NCUA's existing capital framework, they are still substantially more punitive than the standardized risk-weight measures for investments that are assigned under Basel III. It appears that these new risk-weights are intended to regulate potential liquidity, market, and/or and interest rate risk, in addition to the standard credit risk associated with the representative investments.

PTCP is widely recognized as a proponent of disciplined interest risk management and we strongly believe that institutions should have a quantitative-qualitative

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methodology to properly monitor and evaluate interest rate risk. However, to assign inconsistent weighted average life penalties to various investment classes, without considering or evaluating other parts of the balance sheet in a similar fashion, is not only unjustified, but also has the potential to cause actual harm to the safety and soundness of the institution.

The problems with this aspect of the ruling are best illustrated by evaluating the disparities that exist among various asset classes. As an example, under the NCUA's proposal, a Government Sponsored Pass-through Security (GSE) with a weighted average life of six years has an assigned risk-weight of 150%. However, by contrast, an individual 30-year mortgage would receive a standard risk-weight of 50%. If that loan became delinquent, it would then receive a risk-weight of 100%, still below the high-quality GSE investment. The implied assumption behind this risk-weight disparity is that the GSE investment represents a much greater risk to capital than the non-guaranteed, single-obligor 30-year mortgage. In reality, the GSE has a shorter maturity and is more marketable and liquid than the individual mortgage. This appears to be recognized under Basel III guidelines, where the GSE would carry a risk-weight of just 20%.

Another example involves the treatment of general obligation municipal bonds. Under the NCUA proposal, a AAA-rated general obligation municipal bond with a weighted average life of seven years would receive a risk-weight of 150%. That is the same risk-weight that would be assigned to a delinquent unsecured credit card loan. Clearly, the unsecured credit card has much greater risk from a credit, liquidity and interest rate risk perspective, but the risk-weights assigned under the new proposal are identical. Under Basel III, the risk-weight for a general obligation municipal bond would be 50%.

A final example involves the disparities that exist within every investment class that does not receive an unconditional guarantee from the U.S. government. For each investment, if the weighted average life is less than one year, the investment receives a risk-weight of 20%. If the investment has a weighted average life over five years, it is weighted 150%. The implied assumption behind this disparity is that a security with a weighted average life of over five years is 650% more risky to capital than a security with a weighted average life of less than one year. Meanwhile, the Basel III framework has no risk-weights based on weighted average life, and instead has varying risk-weights for different investment classes, ranging from 20% to 100%, based solely on the perceived inherent risk of the classes themselves.

While average life risk-weighting assignments appear to be principally driven by concerns over interest rate risk and liquidity risk, it is important to note that these selective risk-weights create an operationally constraining environment that could impair a credit union's ability to supplement income and provide greater support to its capital base. While we believe it is positive that the proposal does not provide a weighted average life penalty to direct obligations of the U.S. government, the result is that credit unions will be forced to take all of their extension risk within lower yielding investment sectors. As a result, credit unions will be incentivized to improve income by extending maturities on U.S. government obligations, even when shorter-maturity GSEs and municipal securities can provide the same or better income performance with much lower interest rate risk and minimal credit risk.

PTCP Recommendation: While we understand that the profit motives and general operating structure of credit unions are different from those of banks, the proposal's attempt to control a broad range of risks through the weighted average life thresholds on investments appears arbitrary and notably inconsistent with the longstanding capital framework that exists within the banking industry. We recommend that the risk-weights for all assets be consistently applied based on the inherent risks that the individual asset classes pose to the credit union's capital structure. The Basel guidelines provide a reasonable construct for these risk allocations.

Section 702.105 of the FCUA – Individual Minimum Capital Requirements

The NPR provides that the "NCUA may require a higher minimum risk-based capital ratio for an individual credit union in any case where the circumstances, such as the level of risk of a particular investment portfolio, the risk management systems, or other information, indicate that a higher minimum risk-based capital requirement is appropriate. For example, higher capital may be appropriate for a credit union that has significant exposure to declines in the economic value of its capital due to changes in interest rates. Part 747 would contain procedures for requiring a credit union to maintain a higher minimum capital."

PTCP Comments: While PTCP understands and supports the NCUA's authority to exercise appropriate enforcement measures under Part 747 of the FCUA, it is unclear why the proposal would seek to establish additional enforcement authority under unique operational conditions as outlined in the proposal. The proposal states that appropriate levels of capital "cannot be determined solely through the application of a rigid mathematical formula or wholly objective criteria, and that the decision is necessarily based, in part, on a subjective judgment grounded in agency expertise." This statement appears to undermine the efficacy of the entire capital framework, and allows agency judgment and expertise to unilaterally supersede the standardized measurement approach.

Although the proposal identifies a number of situations where a credit union could be operationally deficient, those situations do not necessarily translate into the need for additional capital. In particular, the proposal calls for additional capital in an institution that "has a high degree of exposure to interest rate risk, prepayment risk, credit risk, concentration risk, certain risks arising from nontraditional activities or similar risks, or a high proportion of off-balance sheet risk." While identifying these and other areas of potential risks, it is unclear how the NCUA would measure these risks and how potential risk-mitigating factors to control these risks would be evaluated. Without understanding how the NCUA's risk tolerances might translate into a congruent measure of additional capital, credit unions could be forced to forgo appropriate risk-taking as a defensive posture against arbitrary, intermittent rulemaking.

PTCP Recommendations: PTCP does not support the components of the NPR that provide for an individual minimum capital requirement. PTCP believes that the authority to require additional capital under individual circumstances already exists through the NCUA's current enforcement processes. Adding an additional layer of potentially arbitrary constraints on top of the existing minimum capital guidelines could create confusion and inconsistency in the application of agency's standardized framework. As such, PTCP recommends a removal of the Individual Minimum Capital Requirement Provisions or a restructuring of the provisions to replace broad operational risk components with more objective measures for risk tolerances and operational constraints.

Conclusion

PTCP supports the NCUA's efforts to improve its framework for regulatory capital and to build additional capacity into the system to absorb losses during times of economic stress. We also support and acknowledge the NCUA's effort to formulate an appropriate transition period for various aspects of the proposal. The time frames proposed are generous but appropriate given the magnitude of the changes contemplated. On the whole, the proposal does not appear to present an immediate compliance concern for most credit unions from a pure ratio perspective.

As previously noted, PTCP has attempted to provide feedback that should help improve and enhance the quality of the overall proposal. We have concentrated our comments

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on areas that we believe have the greatest impact to our credit union clients. In our view, there are several provisions that could create volatility and inconsistency in their reported capital ratios. We believe these provisions could impact the effectiveness of the proposal and have negative consequences for the credit union industry as a whole. In summary, we believe the proposal should be adjusted to become more aligned with the Basel III model for evaluating and assigning risk-weights. While we understand that there are differences between the structure and operating capacity of credit unions and banks, we do not believe such dramatic and incongruent differences between the capital frameworks for the two industries are justified. We believe the proposal's attempt to quantify and control a broad range of risks through a singular capital ratio is inherently flawed and could incentivize negative risk behaviors. We also believe that the deductions for the NCUSIF deposit and the reduced allocation for the ALLL should be revisited to ensure those proposals are consistent with the overall intent of the ruling. Similarly, we believe the "Individual Minimum Capital Requirement" provides a broad and undefined enforcement authority that is unnecessary given the revised capital framework and existing NCUA enforcement powers that already exist.

PTCP appreciates the opportunity to comment on this proposal. If you have any questions or would like additional information, please do not hesitate to contact any of the undersigned through Mr. Smith at 312-521-1643.

Sincerely,

W. Bartow Smith, Jr.	Richard S. Berg	Philip M. Nussbaum
Managing Director	Chief Executive Officer	Chairman of the Board

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Table 1: NCUA Capital Comparison

Current NCUA Rule		Proposed NCUA Rule		Basel III For Banks < $15 Billion	
Well Capitalized		**Well Capitalized**		**Well Capitalized**	
Net Worth Ratio	≥ 7%	Net Worth Ratio	≥ 7%	Leverage Ratio	≥ 5%
Risk Based Requirement	RBNW/NWR	Risk Based Requirement	≥ 10.5%	Total Risk Based Requirement	≥ 10% *
Adequately Capitalized		**Adequately Capitalized**		**Adequately Capitalized**	
Net Worth Ratio	≥ 6%	Net Worth Ratio	≥ 6%	Leverage Ratio	≥ 4%
Risk Based Requirement	RBNW/NWR	Risk Based Requirement	≥ 8%	Total Risk Based Requirement	≥ 8%
Undercapitalized		**Undercapitalized**		**Undercapitalized**	
Net Worth Ratio	< 6%	Net Worth Ratio	< 6%	Leverage Ratio	< 4%
Risk Based Requirement	RBNW/NWR	Risk Based Requirement	< 8%	Total Risk Based Requirement	< 8%
Significantly Undercapitalized		**Significantly Undercapitalized**		**Significantly Undercapitalized**	
Net Worth Ratio	<4%	Net Worth Ratio	< 4%	Leverage Ratio	< 3%
Risk Based Requirement	NA	Risk Based Requirement	NA	Total Risk Based Requirement	< 6%
Critically Undercapitalized		**Critically Undercapitalized**		**Critically Undercapitalized**	
Net Worth Ratio	≤ 2%	Net Worth Ratio	≤ 2%	Leverage Ratio	≤ 2%
Risk Based Requirement	NA	Risk Based Requirement	NA	Total Risk Based Requirement	NA

* Does not include 2.5% Capital Conservation Buffer. Including the buffer would make Total Risk Based Requirement 10.5%.

Table 2: NCUA Capital Comparison

	Numerators		
	Current NCUA Rule	**Proposed NCUA Rule**	**Basel III For Banks < $15 Billion**
Additions	Undivided Earnings	Undivided Earnings	CET1: Common Stk. Surplus & Retained Earnings
	Appropriation for Non-conforming Investments	Appropriation for Non-conforming Investments	CET1: Qualifying Depository Minority Interests
	Other Reserves	Other Reserves	1: Non-Cumm., Perpetual Preferred
	Net Income (not in Undivided Earnings)	Net Income (not in Undivided Earnings)	T1: Qualifying Non-Depository Minority Interests
	Allowable Subordinated Debt	Secondary Capital/208 Assistance	T1: Cumm. Perpetual Preferred (pre 5/2010 < 25%)
	Retained Earnings Adj. from Business Comb.	Equity Acquired in Merger	T1: Trust Preferred (pre 5/2010 < 25%)
	ALLL limited to 1.50% of RWA	ALLL limited to 1.25% RWA	T2: ALLL limited to 1.25% of RWA
			T2: Subordinated Debt
			T2: Qualifying Non-Depository Minority Interests
			T2: Cumm. Perpetual Preferred (pre 5/2010 > 25%)
			T2: Trust Preferred (pre 5/2010 > 25%)
Deductions		NCUSIF Capital Deposit (also deducted from RWA)	Various, Including Goodwill and Intangible Assets
		Goodwill	
		Other Intagible Assets	
		Identified Losses Not Included In Numerator	

Table 3: NCUA Capital Comparison

Denominator (Non-Investment Assets)	Current NCUA Rule (Convert at 8% RWC)	Proposed NCUA Rule	Proposed vs. Current	Basel III For Banks < $15B	Proposed vs. Basel III
Cash	0%	0%	↔	0%	↔
NCUSIF Deposit	0%	0%	↔	NA	NA
Debt Unconditionally Gty'd by NCUA/ FDIC (including NCUA Gty Notes)	0%	0%	↔	0%	↔
Non-Delinquent Student Loans Gty'd by U.S. Govt	75%	0%	↓	0%	↔
Cash on Deposit	37.5%	20%	↓	20%	↔
Cash Equivilents	37.5%	20%	↓	20%	↔
Residential Mortgages Gty'd by FHA or VA	75%	20%	↓	0%	↑
Loans Gty'd 75% or More by SBA, USDA, or other U.S. Govt Agency	75%	20%	↓	20%	↔
Non-Delinquent First Mortgage Loans ≤ 25% of Total Assets	75% *	50%	↓	50%	↔
Non-Delinquent First Mortgage Loans > 25% and ≤ 35% of Total Assets	175% *	75%	↓	50%	↑
Non-Delinquent First Mortgage Loans > 35% of Total Assets	175% *	100%	↓	50%	↑
Delinquent First Mortgage Loans	NA	100%	↑	100%	↔
Other Real Estate Loans ≤ 10% of Total Assets	75% *	100%	↑	100%	↔
Other Real Estate Loans > 10% and ≤ 20% of Total Assets	75% *	125%	↑	100%	↑
Other Real Estate Loans > 20% of Total Assets	75% *	150%	↑	100%	↑
Other Real Estate Loans > 25% of Total Assets	175% *	150%	↓	100%	↑
Member Business Loans ≤ 15% of Total Assets	75%	100%	↑	100%	↔
Member Business Loans > 15% and ≤ 25% of Total Assets	100%	150%	↑	100%	↑
Member Business Loans > 25% of Total Assets	175%	200%	↑	100%	↑
Non-Delinquent Consumer Loans other than MBLs (credit cards, autos, ect.)	75%	75%	↔	100%	↓
Non-Delinquent Student Loans Not Gty'd by U.S. Govt	75%	100%	↑	100%	↔
Delinquent Consumer Loans & Student Loans	75%	150%	↑	150%	↔
Corporate Credit Union Non-perpetual Capital	75%	100%	↑	NA	NA
Corporate Credit Union Perpetual Capital	75%	200%	↑	NA	NA
Loans to Credit Union Service Organizations	75%	100%	↑	NA	NA
Investments in Credit Union Service Organizations	75%	250%	↑	NA	NA
Loans Held for Sale	75%	100%	↑	100%	↔
Foreclosed Assets	75%	100%	↑	100%	↔
Fixed Assets and Premises	75%	100%	↑	100%	↔
Other Assets Not Assigned (Default Category)	75%	100%	↑	100%	↔
Mortgage Servicing Assets	75%	250%	↑	250%	↔
Off-balance sheet items (Lns Sold with Recourse/Unfunded Comm.)	75%	75%	↔	Varied	↔

* Under the current ruling, First Mortgage and Other Real Estate Loans are combined as a RW category.

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Table 4: NCUA Capital Comparison

Denominator (Non-Investment Assets) Converted for RBNW Requiremen	Current NCUA Rule RBNW Ratio	Proposed Rule Converted @ 8%	Proposed vs. Current	Proposed Rule Converted @ 10.5%	Proposed vs. Current
Cash	0.0%	0.0%	↔	0.0%	↔
NCUSIF Deposit	0.0%	0.0%	↔	0.0%	↔
Debt Unconditionally Gty'd by NCUA/ FDIC (including NCUA Gty Notes)	0.0%	0.0%	↔	0.0%	↔
Non-Delinquent Student Loans Gty'd by U.S. Govt	6.0%	0.0%	↓	0.0%	↓
Cash on Deposit	3.0%	1.6%	↓	2.1%	↓
Cash Equivilents	3.0%	1.6%	↓	2.1%	↓
Residential Mortgages Gty'd by FHA or VA	6.0%	1.6%	↓	2.1%	↓
Loans Gty'd 75% or More by SBA, USDA, or other U.S. Govt Agency	6.0%	1.6%	↓	2.1%	↓
Non-Delinquent First Mortgage Loans ≤ 25% of Total Assets	6.0% *	4.0%	↓	5.3%	↓
Non-Delinquent First Mortgage Loans > 25% and ≤ 35% of Total Assets	14.0% *	6.0%	↓	7.9%	↓
Non-Delinquent First Mortgage Loans > 35% of Total Assets	14.0% *	8.0%	↓	10.5%	↓
Delinquent First Mortgage Loans	NA	8.0%	↑	10.5%	↑
Other Real Estate Loans ≤ 10% of Total Assets	6.0% *	8.0%	↑	10.5%	↑
Other Real Estate Loans > 10% and ≤ 20% of Total Assets	6.0% *	10.0%	↑	13.1%	↑
Other Real Estate Loans > 20% of Total Assets	6.0% *	12.0%	↑	15.8%	↑
Other Real Estate Loans > 25% of Total Assets	14.0% *	12.0%	↓	15.8%	↑
Member Business Loans ≤ 15% of Total Assets	6.0%	8.0%	↑	10.5%	↑
Member Business Loans > 15% and ≤ 25% of Total Assets	8.0%	12.0%	↑	15.8%	↑
Member Business Loans > 25% of Total Assets	14.0%	16.0%	↑	21.0%	↑
Non-Delinquent Consumer Loans other than MBLs (credit cards, autos, ect.)	6.0%	6.0%	↔	7.9%	↑
Non-Delinquent Student Loans Not Gty'd by U.S. Govt	6.0%	8.0%	↑	10.5%	↑
Delinquent Consumer Loans & Student Loans	6.0%	12.0%	↑	15.8%	↑
Corporate Credit Union Non-perpetual Capital	6.0%	8.0%	↑	10.5%	↑
Corporate Credit Union Perpetual Capital	6.0%	16.0%	↑	21.0%	↑
Loans to Credit Union Service Organizations	6.0%	8.0%	↑	10.5%	↑
Investments in Credit Union Service Organizations	6.0%	20.0%	↑	26.3%	↑
Loans Held for Sale	6.0%	8.0%	↑	10.5%	↑
Foreclosed Assets	6.0%	8.0%	↑	10.5%	↑
Fixed Assets and Premises	6.0%	8.0%	↑	10.5%	↑
Other Assets Not Assigned (Default Category)	6.0%	8.0%	↑	10.5%	↑
Mortgage Servicing Assets	6.0%	20.0%	↑	26.3%	↑
Off-balance sheet items (Lns Sold with Recourse/Unfunded Comm.)	6%	6.0%	↔	7.9%	↑

* Under the current ruling, First Mortgage and Other Real Estate Loans are combined as a RW category.

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Table 5: NCUA Capital Comparison

Denominator (Investment Assets)	Current NCUA Rule (Convert at 8% RWC)	Proposed NCUA Rule	Proposed vs. Current	Basel III For Banks < $15B	Proposed vs. Basel III
Debt Unconditionally Gty'd by U.S. Govt:					
Weighted-Average Life ≤ 1 Year	37.5%	0%	↓	0%	↔
Weighted-Average Life > 1 Year ≤ 3 Years	75%	0%	↓	0%	↔
Weighted-Average Life > 3 Years ≤ 5 Years	150%	0%	↓	0%	↔
Weighted-Average Life > 5 Years ≤ 10 Years	150%	0%	↓	0%	↔
Weighted-Average Life > 10 Years	250%	0%	↓	0%	↔
Securities Gty'd by U.S. Govt Sponsored Agencies with:					
Weighted-Average Life ≤ 1 Year	37.5%	20%	↓	20%	↔
Weighted-Average Life > 1 Year ≤ 3 Years	75%	50%	↓	20%	↑
Weighted-Average Life > 3 Years ≤ 5 Years	150%	75%	↓	20%	↑
Weighted-Average Life > 5 Years ≤ 10 Years	150%	150%	↔	20%	↑
Weighted-Average Life > 10 Years	250%	200%	↓	20%	↑
Securities Gty'd by General Obligations of State and Local Govts with:					
Weighted-Average Life ≤ 1 Year	37.5%	20%	↓	20%	↔
Weighted-Average Life > 1 Year ≤ 3 Years	75%	50%	↓	20%	↑
Weighted-Average Life > 3 Years ≤ 5 Years	150%	75%	↓	20%	↑
Weighted-Average Life > 5 Years ≤ 10 Years	150%	150%	↔	20%	↑
Weighted-Average Life > 10 Years	250%	200%	↓	20%	↑
Securities Gty'd by Revenue Obligations of State and Local Govts with:					
Weighted-Average Life ≤ 1 Year	37.5%	20%	↓	50%	↓
Weighted-Average Life > 1 Year ≤ 3 Years	75%	50%	↓	50%	↔
Weighted-Average Life > 3 Years ≤ 5 Years	150%	75%	↓	50%	↑
Weighted-Average Life > 5 Years ≤ 10 Years	150%	150%	↔	50%	↑
Weighted-Average Life > 10 Years	250%	200%	↓	50%	↑
Non-Agency Asset-Backed Securities with:					
Weighted-Average Life ≤ 1 Year	37.5%	20%	↓	50%-100%	↓
Weighted-Average Life > 1 Year ≤ 3 Years	75%	50%	↓	50%-100%	↔
Weighted-Average Life > 3 Years ≤ 5 Years	150%	75%	↓	50%-100%	↑
Weighted-Average Life > 5 Years ≤ 10 Years	150%	150%	↔	50%-100%	↑
Weighted-Average Life > 10 Years	250%	200%	↓	50%-100%	↑
Asset-Backed Security "comprehensive understanding" penalty	75%	1250%	↑	1250%	↔

Table 6: NCUA Capital Comparison

Denominator (Investment Assets) Converted to RBNW Requirement	Current NCUA Rule RBNW Ratio	Proposed Rule Converted @ 8%	Proposed vs. Current	Proposed Rule Converted @ 10.5%	Proposed vs. Current
Debt Unconditionally Gty'd by U.S. Govt:					
Weighted-Average Life ≤ 1 Year	3.0%	0.0%	↓	0.0%	↓
Weighted-Average Life > 1 Year ≤ 3 Years	6.0%	0.0%	↓	0.0%	↓
Weighted-Average Life > 3 Years ≤ 5 Years	12.0%	0.0%	↓	0.0%	↓
Weighted-Average Life > 5 Years ≤ 10 Years	12.0%	0.0%	↓	0.0%	↓
Weighted-Average Life > 10 Years	20.0%	0.0%	↓	0.0%	↓
Securities Gty'd by U.S. Govt Sponsored Agencies with:					
Weighted-Average Life ≤ 1 Year	3.0%	1.6%	↓	2.1%	↓
Weighted-Average Life > 1 Year ≤ 3 Years	6.0%	4.0%	↓	5.3%	↓
Weighted-Average Life > 3 Years ≤ 5 Years	12.0%	6.0%	↓	7.9%	↓
Weighted-Average Life > 5 Years ≤ 10 Years	12.0%	12.0%	↔	15.8%	↑
Weighted-Average Life > 10 Years	20.0%	16.0%	↓	21.0%	↑
Securities Gty'd by General Obligations of State and Local Govts with:					
Weighted-Average Life ≤ 1 Year	3.0%	1.6%	↓	2.1%	↓
Weighted-Average Life > 1 Year ≤ 3 Years	6.0%	4.0%	↓	5.3%	↓
Weighted-Average Life > 3 Years ≤ 5 Years	12.0%	6.0%	↓	7.9%	↓
Weighted-Average Life > 5 Years ≤ 10 Years	12.0%	12.0%	↔	15.8%	↑
Weighted-Average Life > 10 Years	20.0%	16.0%	↓	21.0%	↑
Securities Gty'd by Revenue Obligations of State and Local Govts with:					
Weighted-Average Life ≤ 1 Year	3.0%	1.6%	↓	2.1%	↓
Weighted-Average Life > 1 Year ≤ 3 Years	6.0%	4.0%	↓	5.3%	↓
Weighted-Average Life > 3 Years ≤ 5 Years	12.0%	6.0%	↓	7.9%	↓
Weighted-Average Life > 5 Years ≤ 10 Years	12.0%	12.0%	↔	15.8%	↑
Weighted-Average Life > 10 Years	20.0%	16.0%	↓	21.0%	↑
Non-Agency Asset-Backed Securities with:					
Weighted-Average Life ≤ 1 Year	3.0%	1.6%	↓	2.1%	↓
Weighted-Average Life > 1 Year ≤ 3 Years	6.0%	4.0%	↓	5.3%	↓
Weighted-Average Life > 3 Years ≤ 5 Years	12.0%	6.0%	↓	7.9%	↓
Weighted-Average Life > 5 Years ≤ 10 Years	12.0%	12.0%	↔	15.8%	↑
Weighted-Average Life > 10 Years	20.0%	16.0%	↓	21.0%	↑
Asset-Backed Security "comprehensive understanding" penalty	6.0%	100.0%	↑	131.3%	↑