



**ALFONSE M. D'AMATO**  
*Member of Congress (1981 to 1999)*

May 7, 2014

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

RE: Comments on Proposed Rule: PCA – Risk-Based Capital

Dear Mr. Poliquin:

As a member and Former Chairman (1995-1999) of the United States Senate Banking Committee at the time at which the Federal Credit Union Act was amended to require NCUA to implement a system of prompt corrective action, I am writing you regarding the Board's proposed rule on risk-based capital.

The proposed rule would apply a risk-based capital standard to determine whether a credit union is well capitalized. Doing so would be inconsistent with the intent my colleagues and I had when we crafted the credit union version of Prompt Corrective Action (PCA) in 1998 and exceed the authority we conveyed to the NCUA under the Federal Credit Union Act (12 U.S.C. 1790d(d)(2)).

When we crafted the credit union version of PCA, we modeled it after the bank version already in place, but we incorporated some very important differences to reflect the different nature of banks and credit unions. In particular, we specified in the law the values of the net worth ratios required for a credit union to be either adequately and well capitalized. We purposely set these levels at 6% and 7%, which were higher than the thresholds then and still in place for banks, at 4% and 5%. Because of this higher pure net worth requirement for credit unions, we called for a different risk-based component in credit union PCA. Rather than the dual risk-based system then in place for banks, with a given risk-based capital ratio threshold to be adequately capitalized and a higher risk-based capital ratio threshold to be well capitalized, we instructed NCUA to construct only a risk-based net worth floor, to take account of situations where the 6% requirement to be adequately capitalized was not sufficient.

In other words, when we included in the law the language: "The Board shall design the risk-based net worth requirement to take account of any material risks against with the net worth ratio required for an insured credit union to be adequately capitalized may not provide adequate protection," we meant just that, adequately capitalized. If we had intended there should also be a separate risk-based requirement to be well capitalized (in addition to the 7% net worth ratio), we would have said so.

When finalizing this rule, I urge the Board, consistent with the expressed intent of Congress, to apply the risk-based standards to capital adequacy. Thank you very much for considering my views on this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Alfonse M. D'Amato". The signature is fluid and cursive, with the first name "Alfonse" written in a larger, more prominent script than the last name "D'Amato".

Honorable Alfonse M. D'Amato