

From: [Chris Howard](#)
To: [Regulatory Comments](#)
Subject: Comment on the Second Proposed Rule on Risk-Based Capital
Date: Monday, April 27, 2015 4:46:36 PM

Dear Mr. Poliquin,

This is one in a series of 12 substantive blog posts addressing the second Risk-Based Capital proposal and published on CreditUnions.com over the past four weeks:

A couple of weeks ago, I suggested that we only had to change one mind to kill RBC2. That may have been the wrong approach. Maybe what we should be doing is asking the Board to do its duty.

In his remarks the day RBC2 was put out for comment, NCUA Vice Chairman Rick Metsger offered a compelling statement about the job of regulators:

We would not be doing our job as regulators if we did not issue an RBC rule that protects the safety and soundness of the NCUSIF, as well as the roughly one Trillion dollars American consumers have on deposit at federally-insured credit unions. We have a duty to protect against “any material risks” and to design a system which is “comparable to” the FDIC’s RBC system. (Emphasis added)

Here’s my question for Metsger: What does protecting “the safety and soundness of the NCUSIF” really mean? Does it mean ensuring that the fund never gets used? At what cost?

Credit unions are self-insured, so protecting the fund actually means protecting the interests of credit union member-owners. If a regulation costs more to implement and enforce than it saves in claims, then member-owners – those who pay all the bills – are not really being protected at all.

Sadly, this is the case with RBC2. It *will* require credit unions to divert time, money, and management bandwidth from serving member-owners to regulatory compliance, but it *will NOT* provide any meaningful new protection. Evidence and experience show that the primary risks to the NCUSIF are fraud, incompetence, and the failure of examiners to catch them fast enough, none of which are addressed by RBC2.

Here’s another question for Metsger: What does “a duty to protect against ‘material risks’” mean? As Chip Filson explains in [this video clip](#), there is no *causal* evidence to link lack of capital (or the age of the current PCA rule, for that matter) to the loss of even a single dollar from the NCUSIF. These explanations for needing RBC2 do not constitute “material risks.” What *would* present risk is a corps of examiners distracted from searching out fraud and incompetence by having to enforce a costly, complex rule.

What’s more, many experienced and respected credit union leaders fear that RBC2 will ultimately result in homogenous balance sheets comprising a limited set of asset classes. That would create [systemic concentration risk](#), “material” by any definition.

If these or any of the other risks RBC2 threatens to create strike you as “material,” then tell the Board that the Vice Chairman says they have a *duty* to withdraw this

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