

Regulatory Comments

From: Sue Lillich <no-reply@cuanswers.com>
Sent: Tuesday, April 07, 2015 11:06 AM
To: _Regulatory Comments
Subject: Risk-Based Capital Comment

To: Regulatory Comments
From: Sue Lillich
Isabella Community Credit Union

04/07/2015

Dear Mr. Poliquin:

I believe the RBC2 rule would undermine the cooperative and diverse nature of our charters by creating a one size fits all over-reaching capital formula. This is a massive flaw of the NCUA's structure as regulator and insurer. We believe this is a myopic view of cooperatives and only considers our equity funding mechanism. A cooperative is a like group of individuals banding together to own a business that is guaranteed to meet their similar financial needs. The arguments and logic of the rule misapplies what is done successfully at a local or institutional level, to an entire system. Because of this I would respectfully recommend the rule be thrown out and at best become a matrix the NCUA would use in the exam process only.

Although Congress has stated NCUA must develop risk based capital standards and they must be formulated in a similar fashion as the banking industry, we do not believe Congress wished to create a tax on members and abandon the cooperative principles of credit unions. Since the publication in the Federal Register the actual costs associated with this capital tax have been challenged. Recently NAFCU published an estimate that credit unions will need to raise an additional \$760 million dollars in capital to achieve their current capital levels. Because credit unions only have one source of earnings, that additional capital tax must come directly out of our members' pockets through a reduction in savings rates, increase in loan rates, and potentially changes to transaction fees. We believe NCUA's estimate falls far short of the actual cost to the industry and again focused on the potential risk to the insurance fund rather than those they regulate and ultimately their members . In an effort to remain the best financial resource for our members, we would encourage the NCUA to withdraw the proposed rule altogether.

I would like to recommend that if the NCUA truly believes that this rule will uncover the outliers and those credit unions that should operate with higher levels of capital than make this rule a test similar to those currently being performed like the 17/4. The OCC has numerous ratios and tests which they perform based upon call report information such as the canary ratios. These ratios are designed to uncover outliers and direct supervision in these areas to review.

We must stop the debate about the nuances of the rule and convince the NCUA, after outlining the substantial objections, that the modeling approach needs to be tested and tried in the examination process as a tool and then the results shared with the industry before suggesting that a model be embedded in a law.

Sue Lillich

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