Comments for Proposed Risk Based Capital Rule

While NCUA is taking a giant step forward in recognizing the need to address how capital is determined, there are many issues with the rule as proposed. In dissecting the risked based elements, it becomes clear that there is still a need for NCUA to understand the balance sheets of many mid-size credit unions. To group us with large, more complex credit unions and write a "one size fits all" formula does not work.

In no particular order, I am listing the concerns that I see with the proposal.

1. NCUA is proposing to assign a risk-weight of 100 percent to "other real estate loans". My concern is that a large part of these loans on credit unions' balance sheets are first mortgage loans as well, not junior liens. Just because the loan is a home equity, it does not always mean it is a junior lien. There should be a way to address the difference between first and junior liens in this category as well.

2. If federally guaranteed student loans are going to carry a 0 percent risk weight, then this same concept needs to be applied in the delinquency section of the calculation as well. A 150 percent risk weight factor should not be assigned to this category, no matter the delinquency since there is no associated risk. There needs to be a way to distinguish this in the delinquency calculation. See Tables 12 and 13.

3. If a credit union's investment portfolio is plain vanilla, with investments limited to certificate of deposits in insured institutions, why would these not garner a 0 percent risk weight (the same as any other instrument that is guaranteed by NCUA or the FDIC)?

4. A 100 percent risk weight assigned to accrued interest on loans and accrued interest on investments is excessive, especially when investments are limited to insured funds. The 100 percent risk weight should only be applied to any funds that are above the insured limits.

5. There is absolutely no room for any field examiner to make a "subjective judgment" in determining a credit union's minimum capital levels. This determination needs to be based on concrete numbers, not opinions. If risked based capital is going to be a "percentage of a DEFINED measure of the equity and other accounts held by a credit union that are available to cover losses, divided by a DEFINED risk-weighted asset", then all subjectivity has been removed. The proposal has already addressed the minimum requirements by the use of this formula and established a baseline in Table 4 – Proposed Capital Categories. If an examiner finds issues at a credit union that may threaten the future health of that credit union, then it needs to be addressed through a DOR. A defined formula should not be allowed to be changed on an examiner's whim.

Respectfully Submitted,

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