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Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 55314-3428

Sent electronically to: regcomments@ncua.gov
Re: RIN 3133-AD77

April 25, 2014

Dear Mr. Poliquin:

On behalf of the credit unions in the state of Iowa, I appreciate the opportunity to comment on the National Credit Union Administration's (NCUA) proposal regarding risk-based capital requirements. The Iowa Credit Union League (ICUL) is the non-profit trade association that represents the interests of Iowa credit unions and their nearly one million members.

ICUL supports NCUA's authority to ensure the safety and soundness of both individual credit unions and the credit union system. However, ICUL has several concerns about the Risk-Based Capital proposal regarding: the impact this proposal will have on the credit union industry in Iowa, the new risk weightings of certain credit union activities, and the proposed effective date for implementing any changes.

Industry Impact in Iowa

Under the current regulations Iowa credit unions over 40 million in assets as a whole have $337 million in additional capital above the existing well capitalized seven percent threshold. The proposed rule would reduce that number to $167 million, a net change of almost $170 million. In Iowa at least eight credit unions will be immediately impacted by this rule and will need to evaluate possible operational and member service adjustments. This proposal will likely impact more Iowa credit unions in the future as their services and investments in their models continue to grow.

Iowa has many small credit unions that are already devoting a significant proportion of resources to meet changing regulatory requirements. Small credit unions in Iowa have continued to merge at an unprecedented rate. Implementing this proposal will force Iowa credit unions with less than $50 million in assets to consider whether growing their model is financially feasible due to the significant cost and restrictions placed on credit unions over the $50 million threshold. It may also force more credit unions to evaluate whether merging with another credit union is a more viable option.

During the recession of the last decade, credit unions typically maintained a well-capitalized position. At the end of the fourth quarter, Iowa credit unions had an aggregated net worth of 10.30 percent and maintain manageable delinquency and net

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charge off levels of 1.04 percent and .41 percent respectively. Credit unions in Iowa are conscientious about properly weighting the risks of their balance sheet under the existing regulations and ensuring adequate capital. The risk weightings and additional capital requirements in this proposal will not serve to increase the protection to the credit union system but instead restrict growth and impact member services.

Risk Weightings

ICUL encourages NCUA to reconsider the proposed risk weightings as components of both the denominator and the numerator will negatively impact credit unions in Iowa. The weightings do not account for the individual management strength of Iowa credit unions and the targeted risks in the proposal have already been accounted for through other regulatory measures.

ICUL is concerned with several components of the denominator contained in this proposal. Overall, the proposed rule creates requirements based on general asset type rather than the individual credit quality and management of the asset. The risk weights do not take into account the strength of an individual credit union's policies, processes, and level of staff expertise to evaluate the risk of each unique loan or investment product. Iowa credit unions with complex lending portfolios or investment portfolios have more robust policies, processes and specific expertise to properly evaluate the risk of the balance sheet. They also receive individual feedback from their examiners to address any unique situations. The method of determining risk and capital requirements in this proposal restricts Iowa credit unions that have the expertise to effectively deliver these services to the community and have the systems in place to properly manage and mitigate the associated risks.

Credit unions in Iowa, both above and below the $50 million threshold, have recently been faced with the difficult decision of whether to continue underwriting real estate loans. Iowa credit unions that were able to dedicate the necessary resources to comply with the new regulations issued by the Consumer Financial Protection Bureau and incorporate real estate lending into their long-term strategic plans will now be forced to reevaluate that decision. Credit unions will need to determine if they are able to continue to provide certain lending products to communities in Iowa.

As a community, credit unions are also working diligently to increase the member business loan cap to allow for future growth and sustainability of the credit union system and to provide a meaningful opportunity for small businesses to access credit. The risk weightings associated with member business loans will undermine those efforts and restrict small business loan growth in Iowa communities. It also limits the ability of low-income designated credit unions to provide loans in rural and underserved communities. ICUL is concerned about the concentration escalation as it relates to real estate loans and member business loans. Increasing risk weights based on concentration penalizes a credit union for developing expertise in those areas and expanding these particular products.

The proposed risk weights for long-term investments does not take into account applicable credit or asset liability management considerations, it only captures interest rate risk concerns. As mentioned in the proposal, changes to the risk-based capital requirements are intended to address credit risk, interest rate risk, concentration risk, liquidity risk, operational risk and market risk. A risk weighting system based entirely on the weighted average life of an investment does not accomplish these objectives. Rather the NCUA's current regulations provide a regulatory framework that more accurately allows for credit unions to individually identify, manage and mitigate risk exposure.

Credit Union Service Organizations (CUSOs) also provide a mechanism for increased services to assist members in ways that would not otherwise be possible. Assigning a 250 percent risk weight to CUSOs would significantly reduce the opportunities for credit union growth and may reduce member service offerings.

Despite the fact that the proposal maintains the primary components of credit unions' net worth calculation, the numerator provision of the proposal implementing a cap of 1.25 percent of total risk weighted assets for the Allowance for Loan and Lease Losses (ALLL) is a concern for Iowa credit unions. As outlined in NCUA's IRPS 02-03, the determination of the amount of ALLL should be based upon management's current judgments about the credit quality of the credit union's portfolio. Credit unions should consider all known relevant internal and external factors that could affect collectability. Credit unions are also required to maintain written documentation to support the amounts in the ALLL. This proposal penalizes management's ability to account for individual credit quality factors that potentially impact their portfolios.

Additionally, ICUL encourages the NCUA to reconsider the exclusion of the one percent deposit each credit union makes to the National Credit Union Share Insurance Fund (NCUSIF) in the risk-based capital ratio calculation. Excluding the deposit inappropriately lowers a credit unions risk-based capital position. A credit union's deposit in the NCUSIF is an asset under GAAP. Most importantly, it is an asset of significant value to a credit union as it represents the presence of federal deposit insurance and should be included in a risk-based capital ratio calculation.

Overall, ICUL believes that NCUA's current regulations such as the interest rate risk rule and liquidity rule already provide a sufficient regulatory framework for credit unions to appropriately identify risk and structure their balance sheets. Adding this proposal to the list of requirements not only increases the regulatory burden placed on Iowa credit unions but does not allow them to grow in areas according to their individual strengths and members' needs. Under this proposal ICUL is concerned that consumers in Iowa will have fewer options in the marketplace to obtain certain credit products, especially as this proposal applies a more stringent standard than is imposed on other financial institutions.

Effective Date
The proposed risk-based capital requirements are a significant departure from existing practice. Credit unions do not have the same ability as other financial institutions to raise

capital. Under this proposal several Iowa credit unions will be faced with the challenge of reducing certain products or increasing interest rates and reducing dividends in order to quickly achieve the new capital requirements. An 18 month implementation period could require Iowa credit unions to make more drastic cuts to member services than would otherwise be necessary with a longer implementation period.

Iowa credit unions have a commitment to their continued success and sustainability. Credit unions across the state have already invested significant resources to establish a strategic direction. Any change to the current prompt corrective action requirements would require the credit union to spend additional time and resources to adjust their strategic plans. ICUL is requesting additional time for credit unions to reconvene their management teams and Boards of Directors to determine necessary adjustments to their model as well as additional time to implement changes and build any additional required capital in a manner that mitigates the impact on members.

ICUL encourages NCUA to reconsider the proposed rule to account for the responsible management of Iowa credit unions to assess risks based on their individual situation. ICUL asks that the NCUA consider the needs of Iowa communities and the important role the credit union system plays in our state when evaluating risk-based capital regulations.

Sincerely,

Patrick S. Jury
CEO/President
Iowa Credit Union League