From:	Jason Tilley
To:	_Regulatory Comments
Subject:	Proposed RBC Rule
Date:	Monday, April 28, 2014 12:08:53 PM
Attachments:	image001.png

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

Dear Mr. Poliquin:

On behalf of ABNB Federal Credit Union, I would like to comment on the National Credit Union Administration (NCUA) proposed risk based capital rule. I appreciate the opportunity to provide my thoughts on this very far reaching regulatory proposal, to express some of my concerns about the potential negative impact of the proposed rule on credit unions if finalized in its current form and to offer some suggested improvements in the rule for your consideration as you move forward in the rulemaking process.

In general I support a conservative approach to capital reform. Risk based capital for credit unions has been on the table for a number of years. My concern is the current proposal is overly conservative and somewhat unwarranted given the history of credit union performance at large during the most recent economic crisis.

This regulation as proposed treats <u>all</u> credit unions as if they were <u>all</u> bad players without regard for their size, the level of experience within the organization and most importantly the past performance during difficult times.

Among other things, the rule should provide blanket waiver authority for fixed assets beyond the 5% regulatory limit and for waiving personal guarantees on some business loans for those credit unions with over 7% net worth under the old rules and over 10.5% risk-based capital under the new rules, upon application by the credit union. Under RegFlex, an examiner would have the right to suspend the blanket waiver based upon safety and soundness considerations; however, the default position for credit unions exceeding both ratios should be streamlined for blanket waiver authority in these two key areas.

Next, CUSO investments should be weighted and managed through the supervisory process not at some arbitrary weight. Given the admitted lack of empirical data on CUSO risk, the weight applied to CUSO investments in this proposed rule is the absolute highest risk weighting applied to any asset.

While there have been a couple high profile losses partially driven by bad CUSO investments, the reality remains that the overwhelming majority of CUSOs are performing very well, generating considerable savings through economies of scale and providing much needed non-interest income to credit unions. If the weighting in not made more appropriate to reflect the actual historical performance and lack of risk in CUSO investments this proposal has the potential to significantly reduce CUSO investments which will stifle innovation and cooperation among credit unions.

CUSOs have been one of the credit union industry's greatest success stories of the past ten to twenty years - see CO-OP, PSCU, CUDL, CU Revest, NB Risk Partners and too many other great CUSO examples to name.

Most importantly, no rule should provide any greater authority for an individual examiner to impose additional capital requirements on a case-by-case basis. . It is absolutely essential that credit unions understand clearly what their capital and net worth expectations will be. This rule already creates a dual system with statutory net worth requirements under PCA as being 7% of total assets to be well capitalized and 10.5% of risk weighted assets to be well capitalized. This creates the question of which is the more important of the two ratios and which should have the strategic priority in credit union risk management decisions - building net worth ratios through the earnings or building capital ratios through divestiture of higher risk assets that might be performing well but adversely impact the risk-based ratios.

Thank you for the opportunity to comment on this proposed regulation. I support the efforts of NCUA to pursue a balanced risk-based capital system that requires additional capital of higher risk credit unions and rewards credit unions with proven risk management evidenced in a lower risk balance sheet. I do not believe the current proposal is sufficiently balanced and encourage NCUA to consider some of the recommended improvements to the proposal.

Respectfully,

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