



**Idaho
Central**
CREDIT UNION

Your money.
Your trusted choice.

April 30, 2014

The Honorable Debbie Matz, Chairman
The Honorable Michael Fryzel, Board Member
The Honorable Richard Metsger, Board Member
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: NCUA Proposed Risk-Based Capital Rule

Dear Chairman Matz, Board Member Fryzel, and Board Member Metsger:

Idaho Central Credit Union is supportive of a change that requires more capital where more risk is taken. We agree that a one size fits all capital requirement such as currently exists is not appropriate and that a studied and well calculated change would be beneficial for the credit union movement.

We do, however, have some issues with and disagree with certain provisions in the proposed capital rule.

- The proposal is inconsistent with the regulation banks comply with therefore creating an environment that will impede credit union growth and give an advantage to banks over credit unions. This is especially true since a bank can go to the market to acquire capital whereas a credit union must grow capital through earnings. We fear not only does this create an advantage for banks over credit unions but that it could increase the number of credit unions that convert to banks. This doesn't seem good for the credit union movement. Some of the inconsistencies we've noted are as follows:
 - Business and commercial loans have a higher risk rating for credit unions.
 - The risk weight of a mortgage at the higher concentration level is double that of a bank.
 - Deposits at the Federal Reserve are risk weighted higher.
 - The amount of time credit unions have to comply with the regulation is significantly shorter. The timeline should be extended to give ample time for credit unions to prepare and should be commensurate with the amount of time banks have to get ready.

In short, we do not understand why the same product would have a different capital requirement just because it is held by a credit union rather than a bank. Why are we being penalized for being a credit union?

- We disagree with the risk weighting of unused lines of credit. Having open ability to purchase is a good thing for the member as well as the credit union. If left in the final rule, the incentive is to limit, remove, or restrict access to open lines of credit.
- We disagree that all mortgages are treated the same. We feel risk weighting should be less for variable rate mortgages and mortgages that have shorter terms. For example, a 30-year mortgage should not be risk weighted the same as a 10-year mortgage.
- We disagree that the risk weight of a delinquent mortgage is the same as a mortgage that is current but in a higher concentration level.
- We disagree with the Individual Minimum Capital Requirements (IMCR) provision. Such a provision gives the examiners too much authority to dictate how credit union staff run the credit union they have been hired to preside over. We also feel this provision could be used to force a credit union to have a higher level of capital simply because the examiner feels it would be good for that particular credit union. Also, while we are certainly not making any accusations, this type of power could cause an examiner to use an IMCR as a vindictive tool against a credit union where prior disagreements may have been heated.
- We disagree that the definition of a complex credit union would be any credit union above \$50 million in assets. Just because a credit union passes the \$50 million mark does not make it complex. Size does not determine complexity. We feel this is an arbitrary number and that complexity should be defined by your products, services, investments, etc. rather than by asset size (especially as low as \$50 million).
- We disagree with the risk rating of mortgage service rights. Credit unions often sell loans for liquidity and interest rate risk reasons. Many credit unions prefer to sell these and hold them to retain the relationship with the member. The proposed regulation will penalize credit unions for being fiscally responsible and member centric.
- We disagree with a limit being placed as to how much can be used in the numerator on the Allowance for Loan and Lease Loss (ALLL) account. If the funds are there, they should be used in the equation, even if they exceed 1.25% of risk assets. If an examiner feels a credit union has substantially overfunded their ALLL, that should be a subject between the credit union and the examiner. The proposed capital rule should not be used to ensure credit unions are not placing too much in the ALLL. Nor should it be used to ensure credit unions are recording loan losses in a timely manner. That should be happening outside of the proposed regulation.
- We also disagree with the proposed calculation taking the NCUSIF deposit out of the numerator. The funds are there and should be used in the calculation.

Ultimately, we are very concerned about the inequality of the proposed regulation when compared to the capital regulations banks are subject to. We feel the proposed regulation would harm credit unions and make them less competitive when compared to banks. We

feel the incentives inherent in the proposed regulation steer credit unions needlessly from profitable products and would thus put more emphasis on fee and other income.

There are many well written comment letters and they contain sound advice on crafting the regulation. We encourage the NCUA to very carefully consider the above as well as the input from the other comment letters. We agree something needs to be done and more capital should be required for more risk, but we do not want to be forced to be less competitive than banks.

Thank you for your consideration. If you have any questions you may contact me by email at bberrett@iccu.com or phone at 208-239-3096.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian M. Berrett". The signature is fluid and cursive, with the first name being the most prominent.

Brian M. Berrett
Chief Financial Officer
Idaho Central Credit Union