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May 12, 2014

Mr. Gerald Poliquin
Secretary to the Board
NCUA
1775 Duke Street
Alexandria, VA 22314-3428

Dear Mr. Poliquin:

I am submitting this additional comment letter after reading the comment letter from former Senator D'Amato wherein he asserts that if he and his colleagues had intended two tiers for the Risk Based component in the credit union version of Prompt Corrective Action (PCA), they would have said so. Their logic at the time appears to have been based on the fact that because the net worth ratios required of credit unions (6% and 7%) were 50% and 40% higher than those established for banks (4% and 5%), only one Risk Based measure was needed. And, based on the results of the past five years, it would also appear that the credit union system justified their reasoning.

In her video explaining the reasons for implementing a "modernized risk based capital system," Ms. Matz stated that during the financial crisis, "102 credit unions failed costing the share insurance fund almost ¾ of a billion dollars." As I said in a previous comment letter, that is a large number but it is a small percentage of the NCUSIF and an even smaller percentage of total credit union net worth. Compare the banking industry during that same period of time; the FDIC experienced 495 bank failures costing their insurance fund over $85 billion.

Credit union losses were less than 1% of bank losses despite the fact the credit union assets represent about 6% of the total financial assets. Bank losses wiped out all available FDIC funds and the U.S. Taxpayers had to pay out tens of billions of dollars to protect bank depositors. In my opinion, there has been plenty of justification to require significant increases and restructuring of bank capital. But, there has been very little justification for such a change in the credit union capital structure. If the NCUA wants to "tweak" the system somewhat, fine. But to increase the RBC component 200 basis points for the "adequately capitalized" PCA component and 450 basis points for a "well capitalized" designation is unreasonable in light of the small number of credit union failures and related losses to the NCUSIF. If NCUA believes an 8% Risk Based Capital is needed to be considered "adequately" capitalized, so be it. But, based on the legislative history, you cannot add an additional RBC component to PCA for the "well capitalized" measurement. And, if you figure out a creative way around the legislative intent and implement a two tier system, the differential should simply add 1% to the RBC level for "adequately capitalized" designation. That would mean 8% is "adequately capitalized" and 9% for "well capitalized."

One more thing, if implemented as proposed, the Agency is creating a reputational risk for credit unions because we would be measured by a different "yard stick." Your proposed risk weightings under report our RBC ratios when the public compares us to banks. This could result in members of the public believing that banks are better capitalized and safer than credit unions which is clearly not the case.

Sincerely,

R. Marshall Boutwell
President/CEO