

May 23, 2014

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

RE: Comments on Proposed Rule: PCA – Risk-Based Capital

Dear Mr. Poliquin:

As the Speaker of the House in 1998 when the Federal Credit Union Act was amended to require NCUA to implement a system of prompt corrective action, I am writing you regarding the Board's proposed rule on risk-based capital. I was actively involved in the House's work on the bill and in the development of the rule under which the bill was considered on the House floor.

I find NCUA's proposal extraordinarily troubling because it exceeds the agency's statutory authority. Under the proposal, NCUA would subject well-capitalized credit unions to risk-based capital requirements that are 2.5% higher than those proposed for adequately capitalized credit unions. This is not what Congress contemplated NCUA should do to establish a Prompt Corrective Action regime. We never intended, nor even comprehended the possibility of, higher risk based capital requirements for well-capitalized credit unions than those that apply to adequately capitalized credit unions.

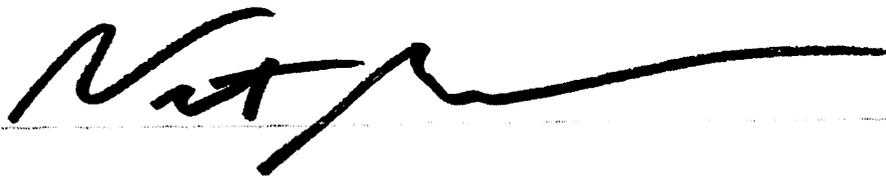
We said as much: "The Board shall design the risk-based net worth requirement to take account of any material risks against which the net worth ratio required for an insured credit union to be adequately capitalized may not provide adequate protection." 12 U.S.C. 1790d(d)(2) (emphasis added). It was our intent to direct NCUA to apply risk-based requirements for a credit union's capital at the adequately capitalized level. The risk-based component was intended to give the agency additional flexibility to address situations in which riskier assets might render a credit union less than adequately capitalized.

If Congress wanted a different result, we would have indicated that. In fact, in other banking statutes, we did exactly that. At the time of the 1998 statutory change, banks were already subject to risk-based capital ratio standards for both the adequate and well-capitalized classifications. However, both then and now, banks have a lower statutory leverage ratio and access to supplemental forms of capital. The proposal thus creates a system that does not seem "to take into account that credit unions are not-for-profit cooperatives" that "do not issue capital stock," "must rely on retained earnings to build net worth," and "have boards of directors that consist primarily of volunteers,"

contrary to our explicit directives, as required by statute. 12 U.S.C. 1790d(b)(1)(B). Banks and credit unions are not the same, and we did not want NCUA to treat them exactly the same.

When finalizing this rule, I urge NCUA to design a system that appropriately considers the unique nature of credit unions and applies the risk-based standards as we intended—at the adequately capitalized level. Thank you very much for considering my views on this matter.

Sincerely,

A handwritten signature in black ink, appearing to be 'N. ...', written over a horizontal line.