May 19, 2013

National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

I represent Members First Credit Union in Brigham City, Utah. We have $97 million in assets, and 14,655 members. Thank you for the opportunity to comment on the proposed risk-based capital rule. We do not support implementing a more sophisticated risk-based capital framework.

While we do feel that some of the risk weights have some justification, such as for perpetual corporate credit union capital and delinquent loan concentrations, we also feel that many of the weights are not correct—such as for investments of varying length. After all, it's not simply the length of an investment that determines its overall risk, especially when considered with the overall ALM program of a credit union.

CUSO investments are also weighted too heavily. Our experience with CUSO investments—and we do have a minimal $20,000 in such investments—is that they simply don't bear that much risk. Before investing in CUSOs, credit unions strive to ensure that the investments have an appropriate amount of risk for the potential return. If the risk is not worth the return, the investment isn't made.

These examples illustrate a fundamental problem with the rule, and demonstrate why we do not feel that there is adequate justification for the proposed rule. Namely, because the aspects of running a credit union are many and varied, and trying to distill all of those complicated issues down into a single rule is far more difficult than the simplistic approach NCUA has taken.

I certainly appreciate the effort to create a simple rule, which is evidenced by the too-basic definition of "complex" and the desire to not increase or change Call Reporting data. However, that effort to keep things simple has created a rule that picks and chooses what targets to shoot at. Mortgage loans bear many types of risk so why only address mortgage loan concentration and credit risk in the rule? Also, investments bear more risks than just interest rate risk, so why only address that in the rule? The answer appears to be "to keep things simple." But by only focusing on those risks, the rule becomes inconsistent and sporadic.

A better approach is to have separate rules and regulations addressing each type of risk. *Which is, in fact, what we already have*. Existing programs, rules, and regulations that credit unions already follow serve their purpose well—they help the vast majority of credit unions manage their credit union and capital well. It's a testament to the strength of the industry—and existing regulations—that it fared so well during the recent financial crisis. There is no further need for this overarching risk-based capital rule that is applied so broadly.

In the end, the proposal creates massive amounts of redundancy with regards to managing risk. But worse, it also increases capital requirements in unnecessary ways. NCUA has indicated that only a few credit unions will be negatively impacted by the proposed rule. While it appears to be true that the capital categorization for relatively few credit unions will be downgraded, that particular measure minimizes the impact of the rule.

The fact is that no examiner and no credit union want a credit union to be at exactly the right ratio to be well-capitalized (7% or 10.5%). Rather, everyone involved wants the credit union to have a safeguard of capital above that minimum threshold. Because this safeguard is decreased for many credit unions under the proposed rule, the impact of the regulation is much greater than NCUA has indicated. For our credit union, the safeguard is reduced by $700,000 as opposed to the current risk-based capital rule. Cumulatively, across the entire movement, the need to re-establish that safeguard will hinder efforts to grow and serve more consumers.

The rule increases capital requirements for all affected credit unions and any credit union approaching $50 million in assets—even if the credit union has a very simple balance sheet.

Obviously it is the NCUA's job is to protect the insurance fund. But at the same time, it's a credit union's job to serve its members. There must be a balance between the two competing needs, and this rule tilts the scale vastly in favor of increasing NCUA micro management of credit unions in an effort to "protect" the insurance fund.

A prime example of that is the portion of the rule that allows NCUA carte blanche authority to require an individual credit union to have more capital. NCUA claiming the ability to require more capital—with no apparent standards for making that determination—is akin to claiming a license to kill any credit union at will. The balance of "protect insurance fund vs. serve consumers" is tilted far in favor of the insurance fund.

In the end, even though a few points to the rule make some sense, we do not support the rule's implementation because it creates so much redundancy and hurts consumers. The best solution is to scratch the project and allow current rules and regulations to serve their purpose.

Respectfully,

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