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

Dear Mr. Poliquin:

I am writing on behalf of Langley FCU which is a $1.8 billion credit union located in Virginia. Langley FCU, chartered in 1936, is a well-capitalized credit union with a net worth ratio in excess of 12% and maintains a well-capitalized status well above the 10.5% threshold established by the ***proposed*** Risk Based Capital (RBC) Regulation.

I take this opportunity to write today to comment on the proposed RBC regulation. Despite our current healthy ratios I believe that there are a few points that need to be made in regard to the proposed regulation and the potential impact on the credit union industry.

I am aware that you have received more than 1,000 comments on this proposed regulation, so I will try to frame my comments at a macro-level on the following topics:

- Need for the Risk Based Capital Regulation
- Opportunity for PCA reform
- Implementation of a Risk Based Capital Regulation

Need for the new RBC Regulation:
Before adopting any new regulation, NCUA should first start with what problem is trying to be addressed or solved. Credit Unions have performed well historically, including the time period commonly referred to as ***The Great Recession***. This was the largest economic downturn since The Great Depression and had an impact across America unlike most of us have witnessed in our lifetime. And yet, the vast majority of natural person credit unions have maintained strong net worth and have emerged from the recession healthy while serving our members' financial needs.

No doubt, there were credit unions that suffered and in some cases failed. However, I'm not sure stronger capital requirements would have prevented those credit union failures. I do not believe you can have enough capital to offset really bad business decisions or catastrophic changes in the environment.

I also believe the current leverage ratio when coupled with appropriate regulatory oversight is sufficient to manage the safety and soundness of credit unions. While I believe that a risk based capital approach may be considered a better approach, I'm not sure the "problem" it is trying to solve exists to merit the speed at which NCUA is trying to move this substantial regulatory change.

With any revolutionary change the cost of unintended consequences can be great. In the RBC proposed regulation, the most basic unintended consequences could be the risk weighting measures themselves. These measures may dictate or redefine the very mission of a credit union as it tries to conform or to ***manage to the regulation*** rather than the <u>needs of its members</u>. This jeopardizes the very essence of the credit union model.

Given the amount of comments and the depths and intricacies of this new regulation I believe it is prudent that NCUA pauses this process and not fast-forward to implementation. I believe hitting the "pause button" will take **significant courage** from the NCUA leadership at both the Management and Board level. If Risk Based Capital is deemed to be necessary, I see no downside to taking the appropriate time to making sure the regulator gets this right the first time.

<u>Opportunity for PCA reform:</u>
I will concede that having regulations that properly account for Capital or Net Worth as a key metric for Safety & Soundness is an important part of the regulatory environment. It should be complemented by other key metrics along with other regulatory observations and inspection. These exist today and I believe NCUA performs a thorough review of credit unions insured by the NCUSIF on a regular basis.

The concept of Risk Based Capital should not be done in a vacuum or layered on top of the current PCA regulatory system, but instead should be integrated with these processes and regulatory standards. This of course makes the process for more complicated to be approved and implemented, but the opportunity for improvement would make this a compelling choice of action.

To properly implement Risk Based Capital requirements I believe we must first look at reforming PCA to include the use Secondary Capital. The implementation of Secondary Capital is done in every other type of financial institutions in the United States, including Corporate Credit Unions and Community Development Credit Unions. Utilizing Secondary Capital would insulate the NCUSIF and it would also allow credit unions to utilize this as a source for managing growth and mitigating risk to the credit union.
I recognize that the definition of Net Worth was codified in legislation, but I would note the GAAP still allows for the utilization of Secondary Capital. In the event a non-legislative approach is taken by NCUA and PCA reform, I suggest that NCUA adopt the use of Secondary Capital in the calculation for the RBC and to meet the 10.5% requirement. This would allow credit unions who maintain a 7% level of net worth under the current PCA definition some flexibility to meet the 10.5% threshold under a new RBC regulation and maintain their Well Capitalized status.

<u>Implementation:</u>
Given the amount of comment letters and general feedback it is critical that NCUA slow the process of implementing any new regulation for Risk Based Capital. It is also essential when, or if, adopted that an appropriate period of time be allowed for credit

unions to conform to this new standard. Banks were given years to implement BASEL III. An extended time period would allow credit unions to make the necessary changes to their business strategy, balance sheet, and operations. I believe a reasonable time period of 3-5 years would be most appropriate after the regulation is finalized. There is no sense of urgency for rushing this new regulation and quite frankly the existing regulatory environment already provides the NCUA an appropriate level of monitoring, inspection, and enforcement (when necessary).

Conclusion:

I believe the NCUA is well intentioned with the proposed regulation, but the comments and feedback from the various key stakeholders and industry experts should speak loudly that the best course of action is not to forge ahead but to pause and get the regulation right in context and right in terms of time to implementation. I think it should even cause us all to reflect on what problem is being solved…

Respectfully,

Tom Ryan
President/CEO Langley FCU