We the Board of Directors represent Wasatch Peaks Credit Union, with $260 million in assets and 30,428 members. Our credit union is affected negatively by the proposed risk-based capital rule, as our categorization would downgrade from well-capitalized to adequately capitalized. Thank you for the opportunity to comment on the proposed rule.

We agree with the fundamental idea that credit unions with more risk should have more funds available to cover that risk. In fact, our credit union already adheres to this practice, or else it would have a capital ratio of exactly 7%. For this reason, we are opposed to the proposed rule; we believe it creates redundancy in how credit unions manage risk.

Credit unions already employ a number of tools to manage concentration, interest rate, liquidity, credit, and operational risk. Yet, the proposed rule tries to manage all those risks at the same time as if none of those other tools existed.

For this reason, we do not feel that the NCUA has adequately justified the need for the revised rule. NCUA may feel like there is a need for the rule due to the losses the insurance fund suffered during the recent economic downturn, but since then the NCUA has implemented a number of new rules and regulations, all designed to mitigate the risks that caused losses to the insurance fund during the recession. These new rules and regulations already serve the purpose of helping credit unions manage their different types of risk. Implementing the new risk-based capital rule would create redundancy in the regulatory framework.

We also understand that NCUA is under the obligation to regulate credit unions in such a way as to minimize losses to the NCUSIF. However, this proposed regulation adds such a layer of redundancy that we feel it's trying to completely eliminate risk to the insurance fund. This is inappropriate, and against all logic for even having an insurance fund.

Every insurance fund suffers losses. It's part of the point of an insurance fund. In addition, most credit union professionals understand that if a credit union were to completely eliminate delinquency and write-offs, there's a very good chance that its underwriting is too strict, and the credit union probably isn't fulfilling its mission to make credit available to consumers.

Likewise, if the NCUA were to implement so many and such stringent regulations—such as the risk-based capital regulation—that the insurance fund never suffered a loss, it might easily be said that the NCUA has lost sight of its mission. In a sense, its

"underwriting" is too strict. It has reached the point of being too tight in its regulations because it has eliminated all risk.

NCUA simply cannot hope to manage risk in credit unions in such a way that the insurance fund never suffers a loss. It is contrary to the idea of insurance pools, and to the idea of managing risk appropriately. Yet, that is precisely what this proposed risk-based capital regulation strives to do—require so much capital from credit unions, that the insurance fund is never needed to cover losses.

Do not underestimate the amount of capital this new regulation will require credit unions to have. No credit union operates—and no examiner would allow a credit union to operate—at the exact minimum amount of capital required to be well-capitalized. Credit unions want—and examiners practically require—credit unions to have a buffer.

Under the current risk-based capital rule, we have a buffer of $7 million over the minimum requirement for well-capitalized. Under the new rule, we have a deficit of $1.3 million. To regain our buffer, we would need to hold another $8.3 million. That's money out of consumers' pockets. That hurts our ability to serve our members, to compete, and to grow—all necessities to our success. The NCUA may think that by implementing this rule it will help credit unions, but in fact, it's hurting us by decreasing our ability to compete.

Part of the $8.3 million shift for our credit union is the removal of goodwill from the numerator of the ratio calculation. We understand that in the calculation NCUA is looking for dollars that can be used to cover losses. However, the application of this notion is inconsistent. If it were, NCUA would make a few changes to the proposal:

- Include the credit union's entire ALLL instead of just a portion. After all, all of that money is available to cover losses, not just part of it.
- Include the credit unions deposit in the NCUSIF, as that money belongs to the credit union and should be considered available to cover losses for the credit union. Removing this amount from the calculation unduly hurts the capital ratio, because it makes up a proportionately larger part of the numerator than the denominator.

If goodwill is not included in the calculation—which we believe it should be, since it quantifies the benefits gained from a merger—then NCUA needs to make the two above changes to the proposal.

In addition, the sudden removal of goodwill from the calculation provides a massive shock to our credit union, and would require quick action to correct the problem. We say "quick" because the proposed implementation timeline is so short. Only 18 months. Making changes to balance sheet composition and retaining earnings in such a manner as to shore up our capital—in just 18 months—would be equivalent

to a massive shock to our credit union. We would need much more time to prepare for this regulation. At least five years.

Furthermore, we oppose the rule because of the provision that would allow NCUA and examiners to required more capital of credit unions on a case-by-case basis. We have already felt that examiners and regional officers have been somewhat capricious in dealing with our credit union, denying requests or requiring action of us without adequate justification. NCUA taking upon itself the power to require more capital of an individual credit union is rife with the possibility for misuse if not abuse.

These are the primary reasons we oppose this proposed rule. But we also feel that the risk-weights are inconsistent in how they address risk posed by each type of asset. Some assets present several kinds of risk, yet the rule typically only addresses one type of risk for each type of asset—and probably not even the most important risk in some cases. For example, the MBL weights seem to address concentration risk, yet in our experience, credit risk is the bigger risk with that type of asset.

For all of these reasons, we oppose the proposed risk-based capital rule. We believe it should be withdrawn, or completely re-written and submitted for another round of review and comment.

Thank you.

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