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Gerald Poliquin, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

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

Thank you for the opportunity to comment on the proposed rule. There are a number of concerns related to this proposal addressed below; however I would like to point out a few of facts first.

iQ Credit Union is located in Vancouver, Washington. We are currently a $530M credit union with approximately 50,000 members. We currently have net worth of 8.94%, and according to the NCUA calculator, would be considered well capitalized at 11.27% under the proposed rule.

NCUA is proposing implementing an amendment to current Regulations to restructure Prompt Corrective Action (PCA). A system to fairly and accurately reflect all the perceive risks credit unions face in today's environment is a tremendously difficult challenge for NCUA. The concept of implementing changes to a risk based capital measure to better align with existing regulators (FDIC, OCC, and FRB) does not within itself cause a great deal of concern and is a positive step towards consistency and accountability for all financial institutions. However, the proposed rule appears to do far more than attempt to achieve consistency and align with these entities. BASEL III appears to be primarily focused on credit risk. However, the proposed rule states one of its goals is to address credit risk, interest rate risk, concentration risk, liquidity risk, operational risk, and market risk. Credit unions have rules in place today to focus on interest rate risk, concentration risk, and liquidity risk and does not need the risk based capital rule to add additional regulatory burden.

Need for the rule. A risk based capital rule is currently in place and appears to be functioning, as demonstrated during the last financial crisis. Although losses to the insurance fund did occur, the overall credit union movement performed significantly better than banks.

For iQ, during the recession which began in 2008, our net worth dropped to a level close to 7.30%. We made some very difficult decisions over the last five years, but made decisions to first continue to provide the services our members expected, and secondly remain a well capitalized institution by NCUA's standard.

NCUA indicated this rule affects very few credit unions, approximately 200. However, the analysis was performed based only on meeting the required minimum of the proposed rule. The proposed rule would have a much larger impact on the credit union industry. iQ Credit Union, like many other credit unions, does not like to operate at the minimum standard, nor would our State regulator allow it.

Accordingly, the new net worth calculator indicated a net worth of 11.27%. Although this is 77bp above the minimum, iQ would want to raise additional capital quickly to meet our internal operating threshold.

Implementation Time Line. The implementation time line of BASEL III allows banks until the end of 2018 for full implementation. In addition, banks have the ability to raise secondary capital. Given the above facts, the proposed 18 month implementation timeline seems significantly inadequate.

As mentioned above, iQ would not take undue risk to meet our internal threshold. However, because of the proposed time line, others may choose a different path, take undue and additional risk, and pose a higher risk to the overall insurance fund. This unintended consequence of the proposed rule needs to be considered by NCUA.

Risk Weighting. The proposed rule establishes risk weights for assets. In most cases, the risk weights assigned to specific asset classes are higher than BASEL III. Risk weights establish the risk associated with a specific asset class, irrespective of the type of entity holding the asset. By establishing different risk weights than BASEL III, and in most cases higher risk weights, credit unions will be required to hold more capital than banks for the exact same asset. Credit unions are already held to a higher standard with a net worth requirement of 7.0% while banks are much less. This puts credit unions, and the credit union industry, at a competitive disadvantage.

Listed below are examples of the types of proposed risk weights of most concern:

- Cash on deposit held at the Federal Reserve is assigned a risk weight of 20%. Under BASEL III, central bank reserves have a risk weight of 0%. Treatment of these deposits should be the same. In addition, the Federal Reserve is considered by NCUA as an emergency source of liquidity, which would give the indication this source of liquidity would be available in the most extreme stress environments and therefore should have a risk weight of 0%.

- The risk weights assigned to specific investments do not evaluate the risk associated with the type of investment, but assumes the risk is tied to the average life of the asset. There are many scenarios where is simply does not make sense. As an example, securities guaranteed by a US Government Sponsored Agency with an average life less than 1.0 year has a risk weight of 20%, however that same security with an average life of 1.1 year has a risk weight of 50%. Although the type of security and its risk factors are identical, an additional 30% risk weight has been assigned. It appears NCUA is attempting to factor in interest rate risk; even thought current regulations are in place to monitor interest rate risk.

- The risk weights assigned to specific loans are treated similarly to investments above. A 30 year real estate mortgage recorded on our books has a risk weight of 50%. However, if that same asset is securitized by FNMA, it would have a risk weight of 150%. BASEL III would assign a risk weight of 20%. In addition, loan characteristics are ignored. Member Business Loans follow a similar pattern. NCUA appears to be showing a bias to direct credit unions away from longer-term assets. It also appears to ignore the make-up of the entire balance sheet and the risk mitigation strategies which the liability side of the balance sheet can provide.

- The 1250% risk weight that can be assigned by an examiner who determines that a credit union lacks sufficient understanding of the features of an investment is of great concern. Experience has shown examiners themselves do not always understand certain types of investments credit unions purchase.

Credit Union Service Organizations (CUSO's). As proposed, a 250% risk weight is assigned to CUSO activities. In 2013, NCUA issued new rules governing CUSOs. When the new rule was issued, NCUA stated "NCUA recognizes that CUSOs provide significant value to the credit union industry by allowing organizations to collaboratively share risk, manage costs, and deliver services to credit union members. The unique collaborative business model of CUSOs fosters cooperation and shared innovation for credit unions, allowing them to achieve economies of scale, retain expertise, and better serve their members." In addition, NCUA publicized the amount of losses attributed to CUSO activities during the recent financial crisis.

In many cases, CUSO activities are 100% owned by a credit union and generally speaking, the CUSO financial results are consolidated with the parent credit union. Therefore, NCUA already has rules in place to monitor the level of risk associated with CUSOs. NCUA has established a rule to obtain additional information to establish the financial impact CUSOs can potentially have on credit union activities. Since NCUA has rules in place today to limit CUSO activity, it seems duplicative to assign a risk weight of 250%. Therefore the risk weight should be no more than 100% and the previously issued rule on CUSO's needs to be rescinded.

Individual Minimum Capital Requirements. The proposed rule provides that "NCUA may require a higher minimum risk-based capital ratio for an individual credit union in any case where the circumstances.......indicate that a higher minimum risk-based capital requirement is appropriate." We believe NCUA already has this authority in place today.

In addition, the 10.5% proposed Risk based capital requirement could become subjective as the criteria is vague, which would allow examiner or examination teams to apply this component inconsistently.

Therefore, there is no basis for adding this provision to this specific rule.

Reporting. One of NCUA's stated goals of the proposal is, "the rule should rely primarily on data already collected on the Call Report to minimize additional recordkeeping burdens". We agree with this concept as reporting burdens continue to increase, however this should not be driving the decisions on risk weights. We support any changes needed to the Call Report data to provide the ability to determine the credit unions risk based capital.

Risk based capital should address risks inherent in specific asset classes. Other risks (concentration, interest rate risk, liquidity) should be addressed with rules currently in place so risk mitigation factors are considered.

As stated above, the intent of the proposed rule is valid. NCUA faces a difficult challenge to develop a system to fairly and accurately reflect all the perceive risks credit unions face in today's environment; however the proposed rule does not appropriately address that challenge. The proposed rule should be rescinded and a new proposal brought forward more consistent with BASEL III.

Thank you for the opportunity to comment on the proposed Risk Based Capital rule.

Respectfully Submitted,

DeWayne Ledbetter

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