From:	Dale Phelps
To:	_Regulatory Comments
Subject:	Risk-Based Capital Rule Comments
Date:	Wednesday, May 28, 2014 3:38:34 PM

To Whom it May Concern:

I represent Nebo Credit Union in Springville, Utah. We have $69 million in assets, and 10,325 members. The intent of this letter is to outline my opposition to the proposed risk-based capital rule currently open for comment. I do not support the further development of a risk-based capital framework.

I understand that the Federal Credit Union Act requires NCUA to implement some risk-based capital requirements, but I do not feel the law requires NCUA to go as far as it has gone with the proposal. In fact, NCUA may be over-stepping its bounds by requiring a separate well-capitalized ratio under the risk-based measures. The law only requires (and gives power to) NCUA to establish an adequately capitalized risk-based ratio—not a well-capitalized risk-based ratio.

In addition, I do not see the need for the increased capital requirement—and there is an increased requirement. The increase isn't explicit, but it's real in practical terms. Credit unions (and examiners) like to see capital levels well above the minimum ratio to be well-capitalized. This cushion provides extra security to credit unions against unforeseen events that could lead to increased oversight. And if that cushion starts to shrink, examiners start to get nervous, which translates into credit unions having to do more to please them. The proposed risk-based capital rule decreases that cushion for many credit unions. In practical terms, this means that they will have to hold more capital to maintain that cushion. For our credit union, the buffer shrinks $900,000 when compared to the existing rule.

The capital requirement is not needed because of how well credit unions fared during the recent economic turmoil. In general, credit unions fared better than banks, yet this rule would require credit unions to hold more capital than banks. Certainly some credit unions failed during the recession—but fewer than banks. Yet the proposal calls for more capital for credit unions. Also, since the recession, NCUA has reacted to those situations that caused so many losses, and has already created rules and regulations that will head-off the type of problems that caused those credit unions to fail.

The practical increase in capital derives from the risk weights, which do not appear to be set at proper levels.

- Corporate credit union perpetual capital should not be weighted so heavily because while corporate credit unions caused losses recently, since then the NCUA has put new rules in place that effectively prevent the same thing from happening again.

- CUSO investments are weighted too heavily in the proposal, when they should not be. CUSOs are basically a type of loan to a business, yet business loans are weighted at as little as half the amount of CUSO investments.

- Investment weightings don't properly address risk, because they are only weighted based on length. Yet, their risk also comes from the nature of the product—what the actual investment is, not just how long it lasts.

The asked for weights derived from the efforts of the proposal attempt to accomplish too much in too simple a manner. Taking all of the types of risk that all types of assets bear would indeed be a complicated proposition, and to simplify, the NCUA picks and chooses when to address certain types of risk. The effect is a jumbled proposal that misses the mark for the sake of simplicity.

At the same time, I don't believe that a more complicated rule would fix the problem. The sum total of the credit union's risk is simply too much to tackle in a single rule.

Fortunately, NCUA already adequately addresses the many types of risk through other means. The risk-based capital proposal is simply tacked on, and adds nothing while requiring much. At best it feels incomplete, as if it wasn't rigorous enough because of the patchy way it addresses risk. At worst, it feels punitive to an industry that overall has done very well consistently over the years.

In short, this risk-based capital proposal is not needed. NCUA already manages many kinds of risk through other means, and this rule only complicates matters for credit unions everywhere.

Thank you for your consideration of my comments in determining a reasonable and appropriate level of oversite for credit unions.

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