May 28, 2014

Mr. Gerard Poliquin, Secretary of the Board

National Credit Union Administration

1775 Duke Street

Alexandria, VA 22314-3428

Dear Mr. Poliquin:

Credit unions and NCUA are in a symbiotic relationship. State chartered credit unions may be insured by NCUA and federal credit unions are both insured and regulated by NCUA. The existence of NCUA is dependent upon a significant number of state chartered credit unions having federal insurance and both state and federal chartered credit unions continuing to operate, and choosing to remain credit unions. There are alternatives available for both insurance and corporate structure. NCUA gives to credit unions a set of rules and guidance to promote safe and sound financial operations for the benefit of members. Federal government backed insurance offers peace of mind to the membership of most credit unions in the country.

Risk based capital rules as proposed by NCUA endanger this relationship. The rules are onerous. The capital required under them would exceed that needed by a comparable bank putting the credit union at a significant marketplace disadvantage. The rules would diminish the flexibility needed to manage and govern a credit union replacing that with an arbitrary set of mathematical percentages that would add little to the knowledge of a qualified examiner. The RBC percent had a high correlation to existing measures such as the CAMEL rating and equity ratio so that in its present form, it would merely be a crutch replacing careful analysis of the underlying mathematical ratios to determine the real risk to the existence of the credit union and to the soundness of the NCUA insurance fund. I have never read in a summary of the autopsy of a credit union failure that an RBC ratio would have avoided the problem.

There does seem to be universal acceptance of the need for RBC rules because of the growing complexity of the financial marketplace. But the rules need to allow for continued evolution, increased complexity, and the continued governance and management of credit unions by their own boards and management teams. Many credit unions have eloquently responded to your RBC proposal with specific reasons for certain sections of the rules to be modified or eliminated. There are so many sections that need significant revision that the proposed rules should be scrapped and a new committee formed to address the issue. A committee lead by NCUA including industry representatives from both trade groups and natural person credit unions would give a more balanced, real world understanding to this undertaking. NCUA cannot delegate away or abdicate its responsibility to assure to all interested parties that credit unions are run in a safe and sound manner and that the insurance fund does not suffer unreasonable losses. Because credit unions are in the business of managing risk, so too is NCUA. The proposed RBC rules fail to recognize that basic function.

In the end, NCUA must make the final difficult decisions regarding risk based capital. It cannot allow itself to be swayed to accept unreasonable risks to the insurance fund or to the reputation of the industry. It must continue to perform its basic functions. If NCUA fails to find a more balanced solution, credit unions will explore their options. The third party relationship policies that they have would require such diligence. The symbiotic relationship that has flourished since the 1930s could then be endangered.

James A. Roche

James A. Roche, CEO