US FEDERAL
CREDIT UNION

William A. Raker, CCE
President/CEO

April 9, 2015

Mr. Gerald Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 11214-3428

Re: Risk Based Capital Proposal (RBC2) (12 CFR 702)

Dear Mr. Poliquin:

On behalf of US Federal Credit Union (USFCU), please accept these comments as input to the proposed rule to establish risk-based capital (RBC2) requirements for federally-insured credit unions. USFCU is a $1.0 Billion credit union serving over 70,000 members in a seven country geographical field of membership surrounding the Minneapolis/St. Paul metropolitan area in Minnesota.

We appreciate the opportunity to comment on this proposal which could have significant impact on our members and the credit union system.

We have serious concerns that the NCUA has not given proper and sufficient consideration to the uniqueness of credit unions and their cooperative structure in its efforts to draft a risk-based capital rule. We believe the proposed rule goes much too far in treating credit unions like for-profit, stockholder-owned banks. Additionally, the NCUA has not cited compelling evidence that additional risk-based capital is needed in the credit union system nor that the cost to the system and its natural person members is worth the supposed benefit.

While USFCU generally supports a modernized risked-based capital system and applauds the positive changes made to the first draft, we believe there remain some areas in NCUA's proposal that are not the right approach for our members or for the credit union industry.

Remaining areas of concern include:

Capital Adequacy Plan - The new provision, that a credit union must develop a written "Capital Adequacy Plan" appropriate (who is to define "appropriate") for their size and complexity, is a major concern to us. Our credit union has a long-term desired capital ratio that depends on our credit

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union's desire to serve our members and on our tolerance for risk and grounded in our ability to generate and retain earnings. The goals we establish for our capital sufficiency should not become targets or standards in an examination.

The regulatory requirement for a Capital Adequacy Plan does not address the issue of the subjectivity of its appropriateness. Such subjectivity could lead to additional scrutiny on not only "appropriate" capital levels but also on how credit unions plan and manage their capital strategies. It could subject credit unions to even higher capital requirements than what a final Regulation would require and invite examiners to continually demand additional capital when all other requirements of the rule are met.

Interest Rate Risk (IRR) - While we were pleased to see the Interest Rate Risk portion of the Risk Based Capital rule removed in the second draft, we do not think the NCUA should propose any additional regulation or rule regarding interest rate risk. We believe the current rule, which took effect in 2012, is sufficient to address concerns with credit unions' management of IRR. The management of IRR is as much an art as it is a science and just one rule would unnecessarily restrain, or even confuse, credit union risk-management. If the NCUA can demonstrate the need for additional IRR steps, it should rightfully be by the NCUA Board issuing "guidance" and through supervision instead of a regulatory rule.

Supplemental Capital – Because the only way credit unions have to raise capital today is through retained earnings, we believe supplemental capital should be allowed and included in the risk-based capital numerator. Certainly, the additional capital would be available to the credit union and the NCUSIF fund in the event of a credit union failure so it should be given credit in the calculation. The logic of not including it is not at all apparent.

Risk Weighting for CUSO Investments – Credit unions are able to offer valuable and needed services to their members through CUSOs that they could not otherwise offer them. CUSOs are a prime example of how credit unions collaborate and cooperate to serve their members and enhance the importance and value of the credit union cooperative system. CUSOs provide a very important and necessary source of additional non-interest income to credit unions – income that will be critical in enabling credit unions to raise and sustain the required additional levels of risk-based capital under the proposed rule. Therefore, it is not helpful to credit unions and their members for the NCUA to propose rules that unnecessarily discourage creating CUSOs or inhibit their growth and development. Unconsolidated CUSO investments have a higher risk weight than loans to the same CUSOs, although the risk is similar. Investment in a CUSO could potentially have a higher risk weight than banks putting credit union at a competitive disadvantage. Why discourage additional and diversified income to the credit union when such income is needed to continue to grow capital? Why limit potential additional services to members?

<u>Goodwill</u> – We believe the exclusion of Goodwill from the RBC2 calculation will result in unintended negative consequences for the credit union industry and the Share Insurance Fund. Larger credit unions, like USFCU, will be discouraged from merging in smaller credit unions, especially those with financial problems. If larger, financially stronger credit unions are not willing to absorb the smaller failing ones because of the rule's treatment of Goodwill, this will put credit union members and the Share Insurance Fund at greater risk of loss.

Overall, the RBC proposed rule goes too far in its efforts and creates a punitive system instead of providing USFCU and other credit unions with opportunities for healthy growth and success. The need to generate income and grow capital will negatively impact members through higher fees and less favorable interest rates on loans and deposits.

Thank you for this opportunity to share our thoughts and concerns on the proposed RBC2 rule and to provide input for the Agency's consideration as the final rule is prepared.

Respectfully,

Bill Raker

Bill Raker
President/CEO
US Federal Credit Union

cc: Credit Union National Association (CUNA)
Minnesota Credit Union Network (MCUN)