US FEDERAL
CREDIT UNION

Date: April 9, 2015

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

Via Electronic Delivery:regcomments@ncua.gov

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

Dear Mr. Poliquin:

I am writing to comment on the proposed rule to establish risk-based capital (RBC2) requirements for federally-insured credit unions. USFCU is a $1.0 Billion credit union with more than 70,000 members in a seven country area around Minneapolis/St. Paul in Minnesota.

While USFCU sees benefit in a modernized risked-based capital system and applauds the positive changes made to the first draft, I believe there are still areas in the new proposal that are not the best for our members or for the credit union industry.

Remaining areas of concern include:

Risk Weightings - Concerns with some risk weightings that are not on par with Basel III requirements for banks. I ask that NCUA reconsider risk-weightings that are higher on credit unions than banks, and/or to also provide an evidentiary basis for higher risk weightings.

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?

Interest Rate Risk (IRR) - While I was pleased to see the Interest Rate Risk portion of the Risk Based Capital rule removed in the second draft, I do not think the NCUA should propose any additional regulation or rule regarding interest rate risk. I 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, I 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.

Goodwill – Although the new proposal allows the use of goodwill in the risk based capital ratio, it only does so in limited circumstances for a short window of opportunity. I believe this 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. I ask that NCUA consider allowing the inclusion of goodwill on an ongoing basis.

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,

Leon H Eichten

Leon Eichten
Senior Vice President/CFO
US Federal Credit Union

Cc: Mary Dunn, CUNA
John Wendland, Minnesota Credit Union Network