

April 17, 2015

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

RE: Comments on Proposed Rule: Risk-Based Capital; RIN 3133-AD77

Dear Gerald Poliquin,

On behalf of Star One Credit Union, I appreciate the opportunity to comment on NCUA's proposed amendments to the Risk Based Capital (RBC) Rule.

By way of background, Star One is a state chartered federally insured CU in Sunnyvale, California serving the Santa Clara County community and various employer groups. We have 93,000 members, \$7.2 billion in assets and \$4.2 billion of insured savings.

I commend NCUA for listening to credit unions concerns about the risk based capital proposal. I offer the following comments for the proposed rule.

**I do not feel that the RBC rule is necessary.** RBC is a complicated set of rules and ratios based on a theory that has not worked in practice. In contrast, the simple and easy-to-understand leverage ratio has served the CU system well through good times and multiple economic crises. RBC for banks has become so complex — and even brought adverse, unintended consequences — that the U.S. banking regulators in April 2014 unanimously adopted credit unions' simple leverage approach to capital adequacy to supersede RBC's multiple measures. FDIC vice chairman Thomas Hoenig: "It doesn't work, It's a fatally flawed experiment that has lasted too long."

*This rule serves no constructive purpose and probably will not work as advertised. ... A CUNA study shows that **only one of the 189 credit unions that failed during the financial crisis would have been covered by this rule prior to failure.** As they say for mutual funds: "past performance is no guarantee of future results". So why would we think this rule could do better than the one failure it might have caught. And, this poor performing rule isn't free. It will cost credit unions and their member-owners millions of dollars to comply with and it will deflect the attention from real problems.*

What is complex? Complex defined: “So complicated as to be hard to understand or deal with; or an intricate or complicated association or assemblage of related things.” Complexity should not be based on size. Complexity should consider the portfolio of assets and liabilities. Complexity should factor in consideration of deposit account types, member services, loan and investment types and portfolio composition. If a limit must be set, I suggest \$500 million and it must be periodically indexed for growth.

CUSO investments are risk weighted at 150%. The risk weight of CUSOs should not be more than 100%.

Additional Capital Above the RBC Level May Be Required under a New Proposed Requirement for a Capital Adequacy Plan. This provision does not seem to be justified. NCUA has eliminated the provision in the earlier proposal regarding individual additional minimum capital. Under the previous provision, an examiner could have been able to impose additional capital on credit unions on a case-by-case basis. This proposal looks like more of the same from the original and should also be eliminated.

Risk-Weighted (RW) Assets (the denominator of the RBC2 ratio calculation).

NCUA lowered the RWs from the original proposal, but they are still higher than actual experience, even through the recent ‘worstcase ’downturn.

I am concerned that NCUA is considering further regulation of interest rate risk that after-the-fact may be tied back to risk based capital. It would seem unfair to issue a RBC rule then later change the game with an IRR rule. A separate interest rate risk rule is NOT necessary.

### **Summary of my position:**

*Please reject the risk-based capital proposal under consideration as it is not necessary. NCUA said it would follow the lead of the FDIC in regulating risk at banks, and FDIC has rejected risk-based capital standards in favor of a simple, direct tangible equity to tangible asset formula. NCUA should follow their lead. Credit unions as a whole did not cause the recent economic crisis. CUs did the same thing they always have: gave good service with good rates and a sound banking option to people in our community who might otherwise be underserved or unbanked.*

Thank you for the opportunity to comment on this proposed rule. We hope NCUA

incorporates our comments.

Sincerely,

Rick Heldebrant  
President and CEO  
Star One CU

cc: CUNA, CCUL