From:	Chip Filson
To:	_Regulatory Comments
Subject:	NCUA"s Risk Based Capital Proposal Version 2
Date:	Friday, April 17, 2015 4:34:13 PM

Attn: Mr. Gerard Poliquin, Secretary, NCUA Board

The member-owned cooperative credit union model has always been difficult for "outsiders" to understand. How can people start a financial institution without any capital except sweat equity, member savings, and a passion to select their own financial options? And then how have they succeeded so well that in just four generations credit unions have become the second largest financial system serving America's consumers?

For over 100 years the cooperative model continues to befuddle other financial firms, analysts, public commentators and even government officials. Because credit unions perform bank-like activities, often the easiest way to try to understand their success is to use banking comparisons. These descriptions include financial ratio analysis, market shares of products, growth rates, number of branches etc.

But none of these external attributes captures the key to the cooperative model which puts the member-owners' interests first. With this priority credit unions have created a system that is the best reserved, most resilient in crisis and continues to attract new members daily. The 7% well capitalized reserve requirement is simple to understand and calculate. The leverage ratio has stood the test of time, and has in 2014 been emulated by the three banking regulators as the best measure of capital adequacy.

This credit union success is the best reason why a new, unproven risk-based capital rule is not only unnecessary but would alter the fundamental core of credit union's decision making which asks: What is in the member's best interest? Instead of thousands of credit unions making their own determinations based on experience and needs, credit unions judgments about reserves would be overridden by a single, uniform national "credit rating system" legally mandated for every loan and asset category.

Regulators for the banking industry which has been cited repeatedly by NCUA as the basis for their formulas are virtually unanimous in their assessment of RBC as a "failed experiment that has lasted too long." In addition to the repeated and in-depth critiques of risk based capital by Thomas Hoenig, Vice Chairman of the FDIC, and his other FDIC board colleagues, other current or former regulators have faulted the concept in speeches and public policy statements:

Mark Carney, Bank of England, Governor (formerly Governor, Bank of Canada)
Michael A Seamans, Analyst for the Dallas Federal Reserve Bank
Charles I. Plossner, President, Federal Reserve Bank of Philadelphia
Sheila Bair, former Chair FDIC

The Mercatus Center at George Mason University published a paper The Failure of Risk-Based Capital Regulation, on January 31, 2013 which includes the observation that: "Evidence indicates that such (risk-based measures of bank capital) regulations have increased individual bank risk as well as the systemic risk in the banking system."

Forcing a banking-inspired and failed risk-based capital rule onto credit unions violates both common sense as well as compromises the system soundness that the NCUA board is sworn to preserve. For if the numbers and formulas don't work, as described by those banking regulators who have had over 20 years regulatory experience with the concept, imposing this failed model can only undermine credit union safety. It would create a bureaucratic burden of endless, never ending rule changes; it adds compliance costs; it distorts the tried and proven judgments of the individual boards and managers; and it takes away the ability to serve members in times of uncertainty when the regulatory incentive will be to only add "safe", that is investment assets, to the credit union's balance sheet.

Much in-depth analysis and critiques of this concept have been presented by commentators on this including a series of articles by Chris Howard. Over 99% of comments posted by members oppose this second proposal. The members have spoken. Their views should be respected; otherwise the public comment process losses its credibility.

If the NCUA board believes a risk-based capital model has benefit in helping to analyze credit union capital adequacy, then this should be validated in actual examination field testing. This model like others examiners use, such as IRR and ALM forecasting, should have empirical validation before being imposed on the cooperative system. This process would also allow other aspects of having a second rule for capital adequacy to be developed such as supplemental capital options.

Credit unions today are better capitalized than at any time in their history with an average capital ratio well over 11%. There is both the time and circumstance available to validate whether this model has value as a rule. When a proposal takes 450 pages to explain why a rule is good for credit unions and to answer concerns, then the proposal is probably not accomplishing what it claims to do.

The cooperative model offers Americans a unique choice to shape their own financial options and investing their funds in overwhelmingly local communities. Their diversity in size, business models, service offerings, and growth strategies provide a positive example for consumers that are skeptical of the for-profit model's role in their future. Credit unions want relationships, not transactions. Imposing a new rule that mandates a failed banking regulation on an industry that served its members and the American economy without fail during the most recent crisis, would be a sorry tragedy for a system that did not cause but rather helped America recover from this same crisis.

Please step back from this rule making process.

Chip Filson, Chairman, Callahan & Associates