



IDAHO CREDIT UNION LEAGUE
AND AFFILIATES

Via E-Mail: regcomments@ncua.gov

April 20, 2015

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3482

Re: NCUA's Risk-Based Capital Proposal, RIN 3133-AD77

Dear Mr. Poliquin:

On behalf of our member credit unions, the Idaho Credit Union League (ICUL) is pleased to comment upon the National Credit Union Administration (NCUA) Board's request for comments on the NCUA second proposed risk-based capital rule (RBC2).

While the ICUL appreciates the work and effort that has gone into revising the first proposed rule, including the review of the over 2,000 comment letters and listening to the many opinions expressed during the Agency's listening sessions, we continue to believe the proposal is unnecessary and flawed. It is, therefore, our view that the RBC2 proposal should be withdrawn.

The recent Great Recession placed enormous stress on financial institutions across the country, resulting in the failure of 465 banks. In conjunction, the Deposit Insurance Fund fell into a negative position despite premium assessments (totaling 27 basis points), and has only now, with additional assessments (totaling 46 basis points), recovered to 1.01% of insured deposits. In contrast, only 124 credit unions failed as a result of the same event, and the National Share Insurance Fund never fell below 1.2% to 1.3% of insured shares, requiring the addition of two premium assessments totaling only 24 basis points. This contrast demonstrates that credit unions weathered the economic storm without needing the NCUA's proposed risk-based capital requirements.

In addition, a review of the 26 credit unions over \$80 million, which failed as a result of the crisis, indicates that only seven would have had lower capital classifications under RBC2 than they had under the current rules. Of those, only three would have lost their capital status and have been demoted to undercapitalized under RBC2.



Given that credit unions on the whole weathered the Great Recession far better than banks operating under a risk-based capital system similar to the one now proposed for credit unions; and given that the proposed rules would have identified only three of the 126 credit unions which ultimately failed as undercapitalized, we find the proposal unnecessary.

While RBC2 contains many improvements over RBC1, it remains flawed. Risk weights that are too high (CUSOs and mortgage servicing rights), the treatment of good will that is too harsh (immediate deduction from the risk-based ratio's numerator) and an overly simplistic definition of what constitutes a complex credit union are examples of the proposed rule's flaws. In addition, the proposed rule fails to permit the use of supplemental capital for risk-based capital purposes by credit unions other than low-income credit unions, which may count it in their net worth.

Flawed too is the proposed capital adequacy plan that would require complex credit unions to develop a capital adequacy plan to assess the sufficiency of their capital on an ongoing basis and set aside capital that is over and above the 7% and 10% risk-based capital requirements. The plan, the credit union's assessment of its situation and the amount of additional capital set aside would all be subject to examiner review. We feel that this is overly burdensome and unnecessary as most credit unions falling under the complex credit union definition are well managed, have low risk profiles and have appropriate levels of capital. Therefore, the issue should be addressed through the supervisory process rather than by a one size fits all regulation.

Should the NCUA Board not withdraw the proposal, we strongly urge that it be revised substantially, making improvements that are consistent with these comments. Additionally, implementation of a final rule should be delayed until 2021.

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

Sincerely,

A handwritten signature in black ink that reads "Kathy Thomson". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Kathy Thomson, CLE, CCUE, CUDE
President/CEO