CFCU
Community
Credit Union

1030 Craft Road
Ithaca, New York 14850-1016

Via Electronic Mail

April 20, 2015

Mr. Gerard Poliquin, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428
regcomments@ncua.gov

Risk-Based Capital, 80 FR 4340-01

Dear Mr. Poliquin:

On behalf of the board of directors, leadership team and members of CFCU Community Credit Union ("CFCU Community"), I am writing to you to express our continuing concern with the National Credit Union Administration's ("NCUA") most recent Risk Based Capital ("RBC") Proposal. With assets of over $900 million and over 60,000 members, CFCU Community is a growing organization, serving a broad range of members in the Finger Lakes region of upstate New York. Many of our members depend on access to our reasonably priced products and services. As a New York State chartered credit union that also must comply with federal mandates, we are acutely aware of the impact, both positive and negative, that new regulations can have on our operations. In theory, a properly executed RBC framework might help CFCU. However, the costs and burdens of NCUA's most recently proposed RBC regulation still outweigh any potential or perceived benefits.

We recognize that the NCUA has determined that it is legally obligated to maintain a risk based capital framework that guards against material risks posed by complex credit unions that can't be mitigated with prompt corrective action ("PCA") alone. However, the breadth of the NCUA's most recent RBC proposal appears to ignore the important fact that the vast majority of natural person credit unions, including CFCU, managed to survive and even grow over the last five years notwithstanding the worst economic slowdown since the Great Depression. This provides all the proof that regulators should need that the existing regulatory capital framework adequately protects the share insurance fund. Furthermore, NCUA is proposing dramatic changes

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even as one of its own Board members convincingly argues NCUA only has the power to mandate that complex credit unions remain adequately capitalized.

If NCUA feels compelled to go forward with RBC reform, we strongly believe that there are several amendments that are needed to make this proposal effective. First, we oppose any attempt by NCUA to impose potentially highly subjective credit union specific buffer requirements. Credit unions that comply with any new risk requirements should not be subjected to additional mandates based on an examiner's judgments. The allocation of capital is one of the most important decisions a credit union board makes and it should not be interfered with in the absence of clearly defined compliance parameters.

NCUA should also not go forward with a new RBC framework unless access to secondary capital is expanded for all credit unions. I support the Chairman's efforts to maximize the ability of credit unions to access such capital with regulatory amendments but the Act itself must be amended prior to the passage of any RBC regulation so that credit unions are on an equal footing with other financial institutions that can raise capital needed to comply with RBC by issuing shares.

The costs imposed on credit unions that must comply with a new RBC framework should also not be underestimated. Even though the vast majority of credit unions would be in compliance with NCUA's revised regulations, a new RBC framework means new software, additional staff training, and a new asset composition. In addition, as has been formally stated by NCUA previously, the reality is there are only a handful of credit unions whose failure would represent a systemic risk to the industry as a whole. As a result, only the largest and most sophisticated credit unions should be subject to an enhanced RBC framework. Consequently, the threshold for RBC compliance should be dramatically higher than $100 million in assets as currently proposed. We would propose that the NCUA consider requiring compliance with any new RBC regulations only for credit unions with assets of $1 billion or greater, and to create a framework to increase that threshold over time, on an annual basis.

We also ask that NCUA reconsider how it is risk rating credit union investments in credit union service organizations ("CUSOs"). As currently proposed, the RBC framework still gives all CUSO investments the same risk ratings even though not all CUSOs pose the same operational risk. For example, a CUSO designed to provide financial literacy education does not necessarily pose the same level of operational or investment risk as a CUSO that engages in nationwide indirect lending. If NCUA wishes to capture the risks posed by credit union CUSO investments, then it has to refine this proposal and classify CUSOs based on the products they provide and the expertise of their management. We fear that the blanket approach in the most recent RBC proposal will penalize credit unions that invest in CUSOs with low operational risk, while possibly not capturing the greater risks posed by investments in CUSOs with greater operational risk. If NCUA is disinclined to differentiate among CUSO investments, then we propose that the risk weighting for CUSOs be reduced from 150% to 100%.

To reiterate, despite some of the positive changes made by NCUA with these most recent RBC proposal, we continue to question the need for a more advanced RBC framework, particularly for a credit union such as CFCU. We would be happy to discuss our concerns with you further should you determine that to be productive.

Sincerely,

Lisa Whitaker
President and Chief Executive Officer