Capital Credit Union

April 20, 2015

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

RE: RIN 3133-AD77; Risk-Based Capital

Dear Mr. Poliquin,

This letter is intended to express Capital Credit Union's (CCU) appreciation to the NCUA's response to the initial Risk Based Capital rule and share some concerns with the new proposed Risk Based Capital rule. CCU is a $390 million credit union located in Bismarck, North Dakota. Our 30,000 members enjoy a number of products and services including mortgage loans, vehicles loans, home equity loans, credit and debit cards, and member business lending.

First, we'd like to thank the NCUA. Based on a review of the new proposal, it is clear that a lot of time and effort was taken by the NCUA to analyze the concerns of credit unions and members. A number of CCU's concerns have been addressed, specifically, the risk weights on member business loans, the removal of the due diligence provisions on investments and the change in risk weights on investments.

CCU feels that these changes will not only allow credit unions to continue to serve their members in the best possible way in the future, but these also represent the proper risks within the new calculation. The common sense approach that was taken on these changes can be seen in other areas throughout the proposed rule.

With that said, there are a few items that CCU would like to comment on with regards to the new proposed rule. These are as follows:

- Studies on the effects the proposed rule would have on credit unions' members.
- The new definitions of business loans.
- NCUA's authority on capital requirements regardless of the calculation.
- How future accounting changes may affect the calculation.
- The short timeline for the implementation of the rule.

Ph. (701) 255-0042 • 1-800-735-6922 • Fax (701) 222-3996 • PO Box 2096 • Bismarck, ND 58502-2096
E-Mail: email@capcu.org • Website: www.capcu.org

The first topic is to understand the effects the proposed rule would have on credit union members. The proposed rule has a specific impact section, however this section focuses on capital and where credit unions would fall with regards to capital. An important piece missing in the impact section is the negative or positive affect this proposed rule would have on members and the products they need. The fact that there are risk weights, means that some credit unions may discontinue or limit some types of products and services over time. This creates questions that need to be understood. Will various services for underserved individuals be affected by this rule? Will business loans for startup companies become less available? Without being able to answer these types of questions, it is hard to understand the actual effects of this rule. The NCUA should attempt to understand what these unintended consequences are in order to ensure that credit unions will continue to fulfil their mission of helping members.

The second area within the proposed rule that needs to be addressed is the definition of business loans. The previous rule referenced member business loans (MBLs). MBL is common terminology used across the credit union industry. The proposed rule outlines a new definition of business loans called commercial loans. The fact that the definitions are not the same may cause confusion with reporting and understanding guidelines and expectations. For example, the current definition of an MBL is a loan over $50,000. The new definition of a commercial loan "includes all commercial purpose loans regardless of dollar amount." This means that depending on the rule or guideline the credit union is looking at, the total business portfolio may vary. This will result in system changes and constant monitoring of two different numbers relating to business loans. In order to help alleviate this confusion, CCU is recommending no change to the definition of business loan.

The third area that needs to be addressed is the authority given to the NCUA and their examiners regarding net worth requirements. The NCUA has eliminated the provision requiring individual minimum capital requirements (IMCR) from the current proposal; however this proposal requires a credit union to hold capital "notwithstanding the minimum requirements"; and a "credit union defined as complex must maintain capital commensurate with the level and nature of all risks to which the institution is exposed." CCU understands that there are situations where a credit union may show that they are well capitalized however their capital is deteriorating; the NCUA and the examiners currently use camel ratings in these situations. Camel ratings take into account asset quality, earnings, liquidity, management and capital. CCU is recommending removing this type of language within the proposed rule and to continue to utilize the camel rating system to address these types of concerns.

The proposed rule also needs additional clarification within this section on a "written strategy for assessing capital adequacy." The concept of a written strategy is not a bad; however the unknown of the requirements is an issue. How will examiners use this policy to test the credit unions? What happens if the credit union is not meeting certain criteria within their policy? What happens if the credit union changes some of the approaches within the policy? Some of these questions need to be more clearly defined within the rule. CCU suggests a written strategy be recommended as a best practice rather than a requirement.

The fourth area of the proposed rule that needs some form of clarification is the ability for credit unions to respond to unanticipated rules in the future. For example, there is a proposed rule on accounting for leases that when the lease becomes effective it will cause assets and liabilities of credit unions to inflate overnight. This impact is not the result of any change credit unions made in their operations, but rather lowers the credit unions risk based capital calculation overnight. Although it is hard to predict what these future changes will be, it is important that the NCUA outline the process in which these will be addressed.

The last area that needs to be addressed is the timeline of implementation. Although the proposed rule increased the timeline from 18 months to January 1, 2019, additional time should be allowed for implementation. The proposed rule focuses on implementation of what the new calculation does and where credit unions will fall with regards to capital analysis. Although this makes sense, this rule is more than just the end calculation, it increases reporting and analysis, and also impacts strategic decisions for credit unions. Making changes to these strategic decisions and altering long term goals does not happen overnight. This involves discussion with the Board and employees and to ask credit unions to do this within the next three to four years will be hard to accomplish.

In closing, CCU fully supports a change in the risk based capital calculation to ensure credit unions remain sound financial institutions well into the future. The NCUA has taken the time to take a very common sense approach to this proposed rule. With a few minor changes to this rule, this calculation will be one that will ensure credit unions will be around for the years to come to continue to serve their members the way they were intended to. Thank you for your time and CCU would be willing to discuss any of these issues further at your convenience.

Sincerely,

Debra M. Gallagher

Debra M. Gallagher
President/CEO