Land of Lincoln CREDIT UNION
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April 21, 2015

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

RE: Proposed Rule - Risk-Based Capital 2

Dear Mr. Poliquin:

I appreciate NCUA's revision of the initial proposed Risk Based Capital. Many improvements were made but some of them didn't go far enough. There are several changes that are needed to improve the proposed RBC2 rule. Based on the way credit unions successfully weathered the past economic downturns, I would argue that a RBC rule is not even needed or justified.

If the NCUA follows through with approving a RBC rule, I recommend the following changes to improve the proposed RVC2 rule.

1. The proposed risk weights of 250% for mortgage servicing assets are still far greater than they need to be. The proposed risk weights would affect a credit union's ability to own and operate a CUSO and hold mortgage servicing rights. I would propose that this risk weight be reduced to at least 200%.
2. The 150% risk-weight on the total investments in CUSOs seems to be arbitrary and still too high. It would make more sense if the percentage of risk-weight would vary depending on how long it's been in established and how successful it has been, financially, growth-wise, and service-wise. The proposed 150% risk weight may result in restricting credit union investments in CUSOs due to the high risk-weighting, even though the CUSO would be beneficial to the credit union. The 150% risk weight would seem to give some competitive advantage to for-profit, third party vendors. I would still strongly recommend a risk weighting of 100% or less for CUSO investments and loans.
3. The NCUA has made the right proposal to allow inclusion of supervisory goodwill as a part of capital, but it has put an expiration date of January 2025. The expiration of supervisory goodwill should be eliminated. Supervisory goodwill from previous supervisory mergers should be grandfathered and allowed to be counted as risk-based capital without a time limit, as long as it meets GAAP.
4. RBC2 defines a complex credit union as one with assets over $100 million. That seems to be an arbitrary number and the definition needs to be improved. A complex credit

union should be defined by the makeup of their portfolio of assets and liabilities. The asset size of a credit union doesn't it make it complex. It's the complexity of its portfolios that make it complex.

5. Finally, if the future rules allow credit unions to raise supplemental capital, it should be included in its net worth and used for RBC.

These recommendations are not all inclusive but they are the ones that are most important to our credit union.

In the final analysis, the safety and soundness of a credit union depends a lot on good management of risk, any kind of risk. A credit union with high capital, regardless of asset size, can fail due to poor risk management. We've seen that happen too many times. To subject credit unions to higher capital standards, at a time when margins are being squeezed and revenue streams are drawing down, seems onerous to me. The proposed high risk weights may result in credit unions realigning their assets by restricting member business loan growth, and reducing mortgage loan growth and thereby reducing credit availability to their members. The need for us to increase net income to meet the proposed capitalization requirements may result in higher interest rates on loans, lower dividend rates on shares, and increased fees. It's our member/owners who ultimately get to "foot the bill" for this proposal. When our owners perceive less value in their credit union, it may put the credit union industry behind the eight ball for survival.

Thank you for revising the first RBC proposal and making many improvements. Thank you in advance for considering my thoughts on improving the new RBC proposal as well.

Sincerely,

Mac Dunaway

Mac Dunaway
President-Treasurer