CENTRAL CREDIT UNION OF ILLINOIS

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Filed via regcomments@ncua.gov

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

Re: Comments on Proposed Rule--Risk-Based Capital RIN 3133-AD77

Dear Mr. Poliquin:

I am writing on behalf of the Central Credit Union of Illinois Board of Directors, management team, and members. We appreciate the opportunity to comment on NCUA'a second proposed risk based capital rule (RBC2).

Central Credit Union has assets of $86 million and 13,100 members. Most of our members live in the metropolitan Chicago area. Our credit union is considered well-capitalized under both the current and the proposed regulations.

We want to thank NCUA for listening to the concerns of credit unions and making many revisions to the earlier proposed RBC rule. We are pleased the effective date was moved to 1/1/2019, the threshold for asset size was increased, the threshold for well-capitalized was reduced, interest rate risk was removed, and the risk weights were adjusted. But, we believe more changes are needed

1. **Demonstrated Need and Authority**— There is no evidence this regulation will improve the safety and soundness of credit unions. The biggest problem during the Great Recession was a lack of liquidity—not capital. Given the performance of credit unions during the financial crisis, we believe the proposed rule is too heavy handed. NCUA should take into account the unique nature of credit unions and their historical performance.

   We are concerned the effect of the rule will be to minimize risk rather than better manage risk. We believe this regulation will have a negative impact on the long-term financial well being of credit unions. If credit unions become too conservative in managing risk and need to use additional resources to comply with burdensome regulations, their net-worth will be negatively impacted. And, credit unions will have fewer resources to meet the needs of their members.

The proposed regulation also imposes a two-tier regulatory standard. We question whether the Federal Credit Act has the authority to impose a two-tier risk based net worth regulatory standard.

2. **Regulation is Too Complex and Burdensome**—If a regulation takes a ream of paper to print, it is probably too complex, burdensome, and difficult to understand.

   We are pleased to see the agency has provided regulatory relief for credit unions with assets less than $100. But, we note the $100 million is a fixed, hard-coded number. In time, we expect our $86 million credit union and many others will become subject to RBC2. In many cases, our balance sheets will remain fairly simple with only slightly larger numbers. Yet, we will magically be categorized as "complex" credit unions simply due to our asset size and not due to any operational, service, or product differences. Sadly, we expect examiners will soon be applying RBC2 to our $86 million credit union and advising us we need to position ourselves for this regulation. So, even though we are only $86 million, we don't feel we are really exempt from this regulation.

   NCUA has tried to create the impression that RBC2 will have little negative impact on most credit unions. The agency states only a small number of credit unions will not be rated adequately or well capitalized. But, the agency has failed to recognize the burden of complying with RBC2. They have not done any formal estimates of the recurring compliance costs of the proposed regulation. Yet, the regulation has 76 variables to calculate RBC and the Call Report will undergo massive changes to collect the necessary data.

   Time required for Central Credit Union to prepare Call Report-- In recent years, there have been many changes made to the Call Report. Each change has added more man-hours required to complete the report. Currently, our CFO spends about 12 man-hours each quarter working exclusively on the Call Report. This totals six full working days a year just for this one report. We question the merit of adding more to what is already a burdensome reporting requirement. Our employees already feel stretched with their current duties. We believe our limited resources would be better spent on non-compliance items serving our members.

3. **Risk Weights—Concentrations--**Although the risk weights have been modified under RBC2, we are concerned higher risk weights remain for concentrations of some loan

types despite no evidence to support the need for higher risk weights. For example, higher concentrations of first mortgages have no correlation with higher loss ratios. Giving them an unwarranted higher risk rate may discourage credit unions from becoming mortgage experts and meeting the needs of their members.

Arbitrary--Risk weights for some loan types appear arbitrary and do not correlate with their actual, respective loss ratios. Actual losses for credit cards, mortgages, autos, and other loans do not correlate with the risk-weight under RBC2.

Delinquent loans--Higher risk rates are also given for non-current loans. And, the reporting threshold for credit unions is 60-days past due versus the 90-day standard used by banks for reportable delinquency.

One example of how RBC2 risk weights will affect Central Credit Union--We do not believe the RBC2 risk weighting would fairly reflect the credit risk of our first mortgage portfolio. To mitigate risk our credit union focuses on shorter-term mortgages with amortizations of five to ten years. The loan to value ratios are low for these mortgages because most of our members would find the payments for a short term mortgage unaffordable if they had not already built up significant equity in their homes. So, the credit risk on our short term loans is much lower than conventional 15 to 30 year mortgages. The demand for our short term mortgages is high because they have low closing costs, low interest rates, and enable our members to pay off their homes prior to retirement. Unfortunately, the proposed RBC2 mortgage risk rates will risk rate our loans the same as 30-year amortizing loans even though our loans have a much lower credit risk. Additionally, we will be penalized with a higher risk rate, because we have a higher concentration of these loans.

Definition of the Mortgage Partnership Finance (MPF) Program—We are also concerned about the definition of the Mortgage Partnership Finance (MPF) Program. As proposed, the definition could be construed as limiting the benefits of the risk based capital treatment only to those credit unions that service their MPF loans, but not those that choose to sell the loans servicing-released. Whether or not credit unions service their mortgage loans does not alter their credit enhancement obligation in any way. We urge NCUA to remove the words, "and servicing them" from the definition of MPF Program. We also recommend adding language to clarify that the definition of the MPF Program does not apply to the Mortgage Purchase Program (MPP), a secondary market alternative offered by certain Federal Home Loan Banks that achieves credit enhancement by creating a contingent asset for the credit union participant, in contrast to the contingent liability obligation created under the MPF Program. Since the purpose of the risk based capital requirements for off-balance sheet activities is to ensure credit unions hold capital against recourse risk, and MPP loans do not have such risk, MPP loans should fall outside of the definition of the MPF Program.

4. **Additional Provisions for Capital Adequacy**—"Well-capitalized" should mean "well-capitalized." If NCUA examiners have concerns about the safety and soundness of a specific credit union they supervise, they should address their concerns on an individual credit union basis. There should not be a regulatory requirement for all complex credit unions to establish plans and policies for a "cushion" or a higher level of capital than RBC2 requires.

5. **Separate Interest Rate Risk Rule**—A separate interest rate risk rule is not necessary. NCUA has already issued many rules and letters addressing interest rate risk. The current rules already have many requirements including the development of a policy, the measurement of interest rate risk, ant the monitoring of interest rate risk. It is not necessary to impose additional regulations on all credit unions. If during the examination process a credit union is identified as having an unusually high level of interest rate risk, it should be addressed in the supervisory process.

Concluding Remarks

Our credit union is concerned about the increasing regulatory burden being placed upon credit unions. We believe RBC2 and other regulations will have many unintended consequences and will weaken the ability of credit unions to compete in the market place. We believe the existing regulations with proper examination and supervision are sufficient to govern the safety and soundness of credit unions. We urge NCUA to revisit this proposal, to make additional corrections, and to reduce the regulatory burden they are placing on credit unions. The excessive amount of time and other resources spent on more compliance could be better spent on meeting the needs of our members.

Sincerely,

Joan Jensen

Joan Jensen
President/CEO