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23 April 2015

Filed via regcomments@ncua.gov

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

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

Dear Mr. Poliquin:

As the primary association for over 300 state and federally chartered credit unions, the Illinois Credit Union League ("ICUL") is pleased to have the opportunity to comment and express our concerns about the National Credit Union Administration's ("NCUA") request for comments on NCUA's second proposed risk based capital rule ("RBC2") published on January 27, 2015. For the reasons described below, we respectfully request the withdrawal of this proposal.

First and foremost, ICUL would like to note the substantial changes made by NCUA in RBC2 over the first proposed rule. It is clear that the NCUA read and seriously considered the many comments that were submitted, and adjusted the proposed rule based on those comments. This indicates that the NCUA is seeking to work with the nation's credit unions to create the best possible financial institutions for their members and for that ICUL is grateful.

However, while the adjustments made in RBC2 are substantial, ICUL still believes that this rule is unnecessary and will create a significant burden, as well as significant constraints to management, of our member institutions. As has been pointed out hundreds if not thousands of times already, during the worst financial downturn in 75 years, credit unions as a whole performed exceptionally well and did not cause any substantial strain on either the insurance fund or require emergency action by the federal government as the banking industry did. By their very nature, credit unions naturally seek different risk profiles than banks, and their greater natural ability to weather financial storms has been recently shown in practice. In fact, within the RBC proposal itself the NCUA admits that very few credit unions would have had to take action under this rule and the potential difference in overall risk to the entire system was miniscule. There is simply no justification to add this regulatory burden and constraint as there is no substantial benefit.

Within RBC2 there are a few areas in particular that ICUL would seek change to. The first is the proposed capital adequacy plan. Primarily, this particular part of the rule seems at odds with the fundamental part of the rule creating a new, higher quantitative standard at 10% for well capitalized. If 10% is well capitalized in the eyes of the NCUA, then why the need for a new qualitative standard on top of that? And if a more nuanced, qualitative approached is required for more complex credit unions, then why is a blanket quantitative standard being placed on all credit unions above a certain threshold regardless of the complexity of their actual operations? Most importantly, the NCUA already has substantial authority to review individual institutions that are particularly complex under the principles of safety and soundness. Given that existing authority, what is the need for a new standard, particularly two new standards? If the NCUA is seeking to address risks proposed by a handful of credit unions, that could be far more efficiently addressed directly by the NCUA based on fundamental safety and soundness.

Additionally, ICUL strongly urges a change in the proposed rule to allow the use of supplemental capital in order to meet any RBC requirements. While supplemental capital cannot be included in net worth for most credit unions without a change in federal law, there is nothing in the FCU Act or GAAP that prevents NCUA from including supplemental capital in the numerator of the risk-based capital ratio for RBC, which already includes items that are not part of net worth. NCUA has already authorized certificates of indebtedness, which have been treated as loans from holders to their credit unions, generally with an interest rate paid to the holders. NCUA should reference the use of these instruments to meet RBC requirements for federal credit unions and, where permitted, for state chartered credit unions. Adequate disclosures should be provided by the credit union to the holder before the proceeds are accepted, but the timing or content of the disclosures need not be complicated. The disclosures should be clear and simple, to help ensure the members' interests are protected and should focus on plainly describing the nature and terms of the instruments. In addition, suitability requirements may be appropriate.

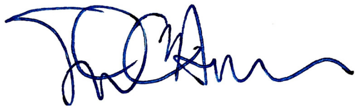
The ICUL respectfully requests that the NCUA Board provide an exemption for Charitable Donation Accounts ("CDA") from the risk-based capital rule. NCUA originally passed the CDA regulation "to clarify that federal credit unions are authorized to create and fund a charitable donation account, a hybrid charitable and investment vehicle, as an activity incidental to the business for which the credit union is chartered, provided the account is primarily charitable in nature and meets other regulatory conditions to ensure safety and soundness." (Federal Register, Vol. 78, No. 244, Thursday, December 19, 2013, page 76728). The parameters placed on CDAs effectively balance safety and soundness considerations with credit unions' charitable intent. Imposing risk-based capital limitations on such investments contravenes the appeal for credit unions to put money into these investments to fund charitable activities.

Finally, 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.

We greatly appreciate the consideration of our views.

Sincerely,



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