Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22315-3428

Re: Comments on Proposed Prompt Corrective Action – Risk Based Capital Rule 2.0

Dear Mr. Poliquin:

Thank you for the opportunity to respond to the Proposed Risk-Based Capital Rule (RBC2). My comments will also address the NCUA's consideration of adding an interest rate risk (IRR) component to the RBC2 rule.

With regards to the proposed RBC2 rule, I feel the NCUA continues to push forward with the ruling where there is not a problem in the industry which needs to be addressed. The credit union industry has rebounded from the financial crisis of 2007-08 and like previous financial incidents, the actions of bad actors led to their demise with the costs of their actions being absorbed by the surviving entities. If enacted prior to 2007, I do not believe RBC2 would have prevented the failures of Cal State 9, Huron River Area, or any of the other credit unions which failed during that time. The only thing which would have prevented these failures is stronger enforcement action against these credit unions based on existing examination authority. A route the NCUA did not pursue. Only when the problem became too big did the NCUA become involved.

The same problem was prevalent in the failure of the corporate credit unions where on-site NCUA examiners did not detect issues building in the balance sheets of the corporates.

I propose instead of adding new regulations to credit unions which are well managed institutions, the NCUA re-examine its examination process using the material loss reviews conducted on each failed credit union to assess what holes are present in the exam process and address them before passing blanket rules which stifle credit union innovation and management.

With regards the to the capital adequacy assessment required in RBC2, my worry is how this will be used in the examination process why if each credit union is required to quantify its unique risks and maintain adequate capital to support those risks is a set of standards then imposed on top of the individual assessment. The individual assessment, if properly prepared should provide a starting point for a safety and soundness examination where examiners can review the plan and then assess if there are any risks which are not included in the plan. Requiring both individual and standard assessments is repetitive and overly burdensome.

With regards it IRR, I feel the NCUA is again trying to establish an IRR standard for the industry which will fail to take into account the uniqueness of every credit union. In my opinion, IRR should be measured using an income simulation of the existing commitments on the balance sheet without regard to any potential future business. This process will allow for a true picture of how the balance sheet will perform in various interest rate scenarios. Future business assumptions can then be reviewed independently of existing commitments for reasonableness. I caution the NCUA on its continued reliance on net economic value (NEV). NEV is inherently a flawed process which ignores risks to earnings, and net worth in changing rate environments. It is highly assumption driven, ignores profitability, and cannot be used to assess risk/return trade-offs. In the event the NCUA moves forward with standardized NEV assumptions, I would be highly concerned about any unintended consequences which would arise from ignoring the uniqueness of each credit union.

In summary, I feel RBC2 is not necessary. NCUA examiners have the resources necessary to accomplish the intended goals of RBC2 by examining and enforcing as they should be allowed to do based on the individual characteristics and uniqueness of each credit union. Attempting to place a "one size fits all" capital requirement on the credit union industry is not the way forward.

Sincerely,

Jeremy Zager, CPA
Chief Financial Officer
Dort Federal Credit Union