Marshfield
Medical Center CU

April 24, 2015

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

Dear Mr. Poliquin:

This letter is provided to address our concerns about the second proposal for a risk-based capital rule. We appreciate the opportunity to comment (again) and while some revisions made in this version are positive we still have strong reservations about it and the harm it may bring to the industry. We are especially concerned that large credit unions will abandon the credit union charter because of the competitive disadvantage embedded in the calculation for certain product concentrations and programs.

First, a rule of such significance to the industry should have the **unanimous** support of the NCUA board and should not be a simple majority vote (despite NCUA board governance rules). Credit unions will have to live with this rule for a long time and any questions as to the legality and/or need for the rule deserve to be answered before it is approved.

Second, while changes made to some of the risk weightings and the lower requirement to be well-capitalized are positive, a simple fact remains: This credit union under the first proposal (and according to the RBC calculator available last year) would have been classified as adequately capitalized at 9.78%. With the new estimator spreadsheet the calculation now results in a 16.77% RBC ratio. The difference for us is primarily because of the removal on interest rate risk (IRR) in the RBC calculation. This is a colossal difference and points to NCUA's over emphasis on interest rate risk in the industry. But wait, we are under $100 million in assets so exempt from the rule. However, our belief is no credit union will be immune from the calculation of RBC because the general practice of NCUA is to measure risk via trends identified in ratio analysis. Unfortunately, some of your static ratios are not effective tools for risk measurement (SIRRT).

In the IRR vein, the agency requested comments on the concept of developing a new rule on interest rate risk. NCUA already has sufficient tools for interest rate risk oversight as provided in the 2012 policy and program standards and from FFIEC guidance for interest rate risk. If you proceed to craft a new rule for IRR you should garner input from expert consultants (outside of NCUA) as well as credit unions and be mindful of the advancements and improvements evolving in this area. Using one metric like NEV

+300 bp shock is shortsighted and detrimental to credit unions and their members. Please reference FDIC communications in which that agency acknowledges the differences in bank balance sheets prevents a one-size-fits-all approach to monitor and manage interest rate risk.

Third, while modifications were made to certain risk weightings (investments aside) there still is no statistical evidentiary support for the weights. The result continues to disadvantage credit union members because of product concentration (1st mortgages weighted at 75% when greater than 50% of assets versus banks and their weighting of 50% with no concentration consideration). Risk weightings also remain too high for CUSO investments and Mortgage Servicing Assets - the business models of many credit unions to collaborate with other system partners and/or to service member mortgages should be encouraged rather than discouraged. Cost efficiencies and local service are good for members. These are differentiators that a **rule for credit unions** should recognize.

Fourth, raising the complexity threshold to credit unions at $100 million or greater exempts a significant number from the proposed rule. But, have you successfully **defined** a complex credit union? We think not as the complexity triggers enumerated in the proposal are descriptive but not definitive. With additional attention you will probably determine complex (as compared to our banking brethren) is considerably higher than $100 million in assets. Any simple asset threshold is an inadequate measure of complex.

In conclusion, the concerns noted are not all inclusive as we have others (treatment of NCUSIF) but in the interest of brevity we have listed our major issues. The costs to implement this unnecessary rule are huge for credit unions and the agency. What a waste of money for a rule that would not have worked as an early warning indicator for problem credit unions had it been in play prior to the Great Recession (based on research by the trade organizations). To promulgate this rule to reign in a handful of outlier credit unions is unwarranted. We support a safe and strong credit union system but we cannot support this proposed rule.

Sincerely,

*Carol J. Adler*
President