From: Chris Howard
To: _Regulatory Comments
Subject: Comment on the Second Proposed Rule on Risk-Based Capital
Date: Monday, April 27, 2015 4:46:43 PM

Dear Mr. Poliquin,

This is one in a series of 12 substantive blog posts addressing the second Risk-Based Capital proposal and published on CreditUnions.com over the past four weeks:

As many have pointed out, NCUA staff has worked hard on RBC2 and their efforts are not without merit. The proposal does not work as a rule, but it could be a potentially valuable tool for examiners — a set of guidelines for examining complex balance sheets that do comprise significant risk. As a tool, RBC2 could be a win-win, strengthening the examination process without harming credit unions. As a rule, it is strictly lose-lose.

Witness leading RBC critic and FDIC Vice Chairman Thomas Hoenig, an accomplished bank economist who spent two full decades as CEO of the Kansas City Fed. He is no gadfly, no politician, and no credit union partisan. But he does make a strong, principled case, well grounded in facts and logic, that the Basel approach is "a system fundamentally flawed [that] … protected no one: not the banks, not the public and certainly not the FDIC." It defies reason to think this approach could work any better for credit unions and the NCUSIF.

What does work is the net worth ratio. It has seen natural person credit unions through every manner of economic challenge. Leading financial regulators all over the world are moving toward the bank equivalent, the leverage ratio, as the best tool to ensure capital adequacy and protect safety and soundness in a rapidly changing, unpredictable world. Why shouldn't credit unions continue to benefit from the best tool? Why would our regulators want to take this movement backwards?

And the dysfunctionality of RBC2 is only one issue. This proposal would make it more difficult for credit union boards and professionals to manage their institutions and their balance sheets. Credit union leaders will have to divert time and attention from serving member-owners and managing their institutions safely and soundly in order to ensure compliance. They will also have to deal with the "real" capital problem with RBC2 — the inability to raise it "promptly."

It is ridiculous for NCUA to even be considering a rule requiring credit unions to increase regulatory capital quickly without guaranteeing access to supplemental capital. This will unavoidably force a new and aggressive focus on profitability — the only source of credit union "capital" – even at a cost to member-owners and the risk of service and safety.

This is contrary to the mission of a financial cooperative, directly opposed to the interests of member-owners, and promises to embolden banks in their fight to tax credit unions and destroy the value of the credit union charter.

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