

**From:** [Chris Howard](#)  
**To:** [Regulatory Comments](#)  
**Subject:** Comment on the Second Proposed Rule on Risk-Based Capital  
**Date:** Monday, April 27, 2015 4:46:24 PM

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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:

NCUA officials have tried to justify their position on RBC2 by offering evidence that the credit union movement really does have a capital problem and current regulation is inadequate.

One argument is that nearly 15 years have passed since there was a PCA update. Implication: The rule is archaic and therefore must be changed.

Another argument is that only two of 5,400 credit unions are out of compliance with the current rule. Implication: The rule is therefore lax and inadequate.

What NCUA officials do not offer is any evidence of causality. Why does a high compliance rate mean that a capital rule is ineffective? I think it means the current rule is working well and does not need to be changed.

Even if we accept this facile reasoning about the “problem,” there is no reason to conclude RBC2 will do any better. The NCUA’s claim that “higher levels of capital reduce the likelihood of a financial crisis” does not stand up to scrutiny, implying causality in the face of contrary evidence from the NCUA itself.

NCUA analysis shows that the average net worth ratio of 192 credit unions that failed over the past decade was 12.1% just two years before they failed. This suggests that inadequate capital reserves were the result of the process of failing, not the cause.

The *real* problem here isn’t with the PCA rule; it’s with human nature. No amount of factual evidence will ever sway true believers from what they already *KNOW to be true*.

But not everyone is a zealot. There surely are NCUA officials who know the justifications for RBC2 simply don’t add up. That’s why commenting is so important. The overwhelming support of outside opinion can empower those who can’t stop the juggernaut with facts alone.

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