SEATTLE
METROPOLITAN
CREDIT UNION

April 24, 2015

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

RE: Comments on Proposed Rule: PCA – Risk Based Capital 2

Dear Mr. Poliquin,

Seattle Metropolitan Credit Union (SMCU) once again thanks you for the opportunity to provide comments for the proposed Risk Based Capital Rule version 2(RBC2). We applaud the National Credit Union Administration (NCUA) for trying to embrace approaches and methodologies to help better the credit union industry and protect the assets of our members. However, we do feel that although the revised version of this rule is a vast improvement over the previous version it still remains a flawed approach.

This rule is touted as one that will become consistent with those used across other financial industries. Specifically it better aligns with the requirements from the OCC, FDIC, Fed and other corporate requirements. It is questionable as to why we would want to align with these rules as they did not better protect banks vs. credit unions during the recent recession (2008-2012); 465 banks failed while only 112 credit unions failed during this time period. The rule indicates that a leverage capital ratio is not effective, although U.S. banking regulators have a preference for such a ratio. If moving towards alignment why move away from the preferred method in that sector? Furthermore why would we want our industry to look even more like the banking industry?

The RBC2 concept is still unproven and there is no documented need for this rule. As it is currently proposed only 19 credit unions would fall under the "well capitalized" classification. Any new approach should address a systemic issue and not be a solution looking for a problem to solve. What has not been shown is the necessity to add this additional level of scrutiny.

In the rule it states that credit unions will be required to "maintain a written strategy for assessing capital adequacy and maintaining an appropriate level of capital." As it is presented these plans will have to be approved by the NCUA and in return can be utilized by examiners to require individual credit unions to hold capital above levels required within this proposal. Credit unions already manage capital adequacy through budgeting, strategic planning, liquidity, interest rate risk and risk management.

This heightened requirement is not only unnecessary but comes at a cost. Not only the hard costs passed onto the credit unions or the expense required adhering to this rule, but there is a cost to our membership. Having inflated levels of capital is in essence taking money out of our member's pockets. This is detrimental during a period of economic recovery. Additionally this makes us no different than the banking industry that passes on earnings to share holders thus taking money out of their customer's pockets.

If Congress wanted the credit union industry regulated the same as banks, they would have made that so. They did not intend for that to be the case. And there remains significant uncertainty about the NCUA's authority to implement this rule. NCUA's own legal opinion states "after careful review and deliberation we find that the language of Section 216(d) is, at best, ambiguous with respect to the statutory authority of the NCUA to implement a two-tier RBNW requirement for complex credit unions". This quote is from Paul Hastings LLP opinion letter dated December 30th, 2014.

We appreciate and agree with the NCUA that removing all interest rate risk factors from the RBC2 calculation was the prudent thing to do. We also believe that the current IRR policy and program standards adopted in 2012 are more than sufficient to allow each credit union and NCUA to monitor a CU's position for rising or falling rates and therefore do not believe any additional requirements are appropriate or necessary.

We believe there is no merit to adding an additional risk based capital level calculation requirement. The current PCA system has served the industry well and was more than sufficient during the 2008 recession. The cost of the additional capital, the reporting burden and costs associated with it to credit unions and the NCUA would severely undermine the industry's ability to grow, compete and provide the products and services their members both need and desire.

When you consider that the total losses to the NCUSIF over the last 7 years since the economic collapse in 2008 were comparatively small at less than $1 billion, it appears that this regulation is unwarranted. Again, while only about 19 credit unions would initially see their capitalization category reduced with this proposed regulation, many credit unions would struggle to meet the RBC2 requirement for "well capitalized" as they grow in the future. In addition, any significant economic disruptions would only exacerbate a credit unions ability to adjust to such situations, while trying desperately to also continue to meet these arbitrary, unnecessary additional net worth requirements. This would reduce credit union growth, and make us less competitive to other financial institutions.

As we stated previously Seattle Metropolitan Credit Union is well capitalized under current NCUA requirements. Under the proposed requirements we continue to be well capitalized, but with diminished capacity to grow and serve member financial needs. The proposed capital requirements create a more challenging operating environment; reduces our competitiveness within the financial service industry and increases capital volatility without improving safety and soundness or the risk profile of the credit union.

If you have any questions please do not hesitate to contact me.

Sincerely

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