WICHITA FEDERAL
CREDIT UNION

Via Electronic Mail

April 27, 2015

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

RE: Risk Based Capital, 80 FR 4340-1

Dear Mr. Poliquin,

This letter is in response to NCUA's call for comments on the second proposal for risk based capital, RBC2. Wichita Federal Credit Union is a $92 million community credit union with 9,500 members. We've been serving the Wichita, Kansas community for 75 years. We offer a full line of financial products, and our loan-to-share ratio is ninety-five percent (95%). We have three (3) full-service branch facilities, and our current net worth ratio is sixteen percent (16%).

We believe the RBC2 proposed rule is flawed in its underlying rationale, and the rule as proposed is impermissible under the Federal Credit Union Act. We believe the long term impact of RBC2 will be detrimental to consumers (member-owners) and detrimental to the credit union model.

Flawed Regulatory Proposal

The proposed RBC2 is a solution looking for a problem, and is flawed in its underlying rationale. Existing credit union rules proved very effective following the largest financial crisis in history, as evidenced by credit union growth rates and net worth increases over the last five years. Unlike banks, no taxpayer funds were used to bail out credit unions, and yet the proposed RBC2 rule attempts to apply the same risk-based capital standards as those applied to banks.

The proposed rule strips away more of the fundamental differences between credit unions and banks, without expanding the ability of credit unions to continue innovating and serving consumer needs in our communities; needs that are not being met by banks and non-traditional institutions. The proposed rule will drive credit unions to convert to bank charters, as RBNW rules are leveled, but the ability for credit unions to serve and expand is not equally leveled (i.e. cap on member business loans, permissible investments, supplemental capital).

The Federal Credit Union Act specifically calls for NCUA to take into account the unique structure of credit unions (FCUA section 216 (b)(1)(B)) as follows:

"The Board shall design the system required under subparagraph (A) to take into account that credit unions are not-for-profit cooperatives that

(i) do not issue capital stock;
(ii) must rely on retained earnings to build net worth;
(iii) have boards of directors that consist primarily of volunteers"

NCUA's proposal has taken ***none*** of the above factors into account, as the RBC proposal is not coupled with guaranteed access to supplemental capital, with the exception of low-income designated CUs. NCUA is attempting to justify the RBNW changes by claiming the proposed rules are the same as banks. However NCUA forgot one very important factor – credit unions are not banks. We are not-for-profit financial cooperatives, with a unique structure which places consumer interests above all else. The new rule will no doubt force credit unions to focus aggressively on profits to meet RBC2 requirements in direct contradiction to the interests of member/owners and will ultimately diminish or altogether destroy the value of the credit union charter.

In addition, the two-tier RBC requirement for well-capitalized and adequately capitalized credit unions is not permissible under the Federal Credit Union Act. So the legality and permissibility of NCUA's proposed rule is in question.

<u>Impact to Wichita Federal Credit Union members</u>

RBC2 will have a negative impact on our members by diverting capital from expanded products, technologies, facilities, and services to maintaining an RBC cushion. Dividends to members and low or no margin services such as community donations/sponsorships, financial education, and youth initiatives will be reduced or eliminated. Over time we will be forced to focus on profits above all else in order to meet unnecessary RBC2 requirements, diminishing the value we currently create for consumers in our community. The rule will limit our ability to compete with banks and non-traditional competitors, thereby limiting our ability to reach the underserved. The proposed rule will cause an industry wide cooling of innovation and limit expansion of credit union services to consumers. Additionally, the rule adds to the difficulty of credit union mergers, and adds undue complexity and burden to reporting processes. The costs to keep up with other regulatory and compliance changes are burdensome enough, without adding another layer of complex reporting processes for RBC2. This rule serves the regulator by making the regulator's job easy, but it denies members the ability to access their own capital - capital they earned and own.

Recommendations for improvement to the proposed rule

Despite our objections to the proposed rule itself, we recommend the following changes should the NCUA proceed with implementation of their RBC2 proposed rules:

1) Allow credit unions that are not designated as low-income, to include secondary capital to "net worth" for purposes of satisfying the leverage ratio of section 216(c) of the Federal Credit Union Act.

2) Lower the risk weights for CUSO investments (150%) and mortgage servicing rights (250%) that remain too high and could affect a credit union's ability to own and operate a CUSO and hold mortgage servicing rights.

3) Exclude interest rate risk (IRR) components from RBC and PCA systems completely. NCUA's 2012 Interest Rate Risk Guidance is comprehensive and sufficient to manage interest rate risk for credit unions.

4) Exclude the NCUA board's ability to deem a credit union undercapitalized and require a capital adequacy plan. NCUA does not have the authority to require credit unions to maintain subjective capital levels beyond the established regulatory limits.

5) Increase the threshold for RBC2 compliance from $100 million in assets to $1 billion in assets. The majority of systemic risk to the share insurance fund comes from large credit unions who are equipped to handle complex reporting under RBC2. Credit unions with less than a $1 billion in assets represent low systemic risk, and will experience undue hardship complying with the RBC rules.

We appreciate the opportunity to submit our comments and input on this regulatory proposal that will forever change the trajectory of the credit union business model. Careful consideration should be given to each and every detail to avoid unintended consequences that could limit consumer access to credit unions and reduce the value credit unions bring to our communities. If you have further questions or need additional information, please don't hesitate to contact me directly at 316.941.0606.

Sincerely,

Jane Hammil

Jane Hammil
President/CEO
Wichita Federal Credit Union