STATE OF CONNECTICUT
DEPARTMENT OF BANKING
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Jorge L. Perez
Commissioner

April 27, 2015

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

Via e-mail to: regcomments@ncua.gov

Re: RIN 3133-AD77 Risk-Based Capital Proposed Rule

Dear Mr. Poliquin:

The State of Connecticut Department of Banking ("CTDOB") appreciates the opportunity to provide comments on the National Credit Union Administration's ("NCUA") proposed rule RIN 3133-AD77 ("Proposed Rule") regarding risk-based capital published in Volume 80, No. 17 of the Federal Register on January 27, 2015. This proposed rule is an improvement on NCUA's original proposal published last year and we particularly appreciate NCUA extending the implementation period to January 1, 2019 and eliminating interest rate risk from the rule. We believe, though, that this proposed rule can be further refined to address state regulatory and industry concerns while upholding NCUA's objectives in establishing a risk-based capital framework.

As a general matter, the CTDOB supports the comments submitted by the National Association of State Credit Union Supervisors ("NASCUS"). In addition, we previously recommended in our comments on NCUA's original proposal that (1) the threshold for applicability of the rule to credit unions be raised from $50 million in assets to $250 million and (2) the 250% risk weight assigned to investment in credit union service organizations ("CUSOs") be reduced. While we appreciate that NCUA increased the threshold for applicability to $100 million and lowered the risk weight for CUSOs, we still believe that the threshold can be increased and the risk weight decreased without jeopardizing NCUA's objectives. First, raising the threshold for applicability of the rule to credit unions with $250 million or greater in assets not only would better capture those credit unions with a level of complexity that would justify implementation of the time consuming process of risk-weighting balance sheets, but also would comport with recent NCUA actions recognizing the complexity and degree of risk in credit unions with assets over $250 million. Second, we believe investment in CUSOs should be risk-weighted at 100%. CUSOs are subject to state and federal oversight by which regulators can monitor CUSOs' activities and analyze the risk associated with investment in CUSOs. NCUA's recently issued Final Rule on CUSOs provides the agency with supervisory power and oversight for CUSOs. A risk weight of 100% would better reflect that

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regulators have direct means to address the safety and soundness of a credit union's investment in a CUSO, and would better align with the treatment of similar exposures under banking regulations.

Finally, in the preamble to this proposed rule, NCUA specifically requests comments on (1) alternative approaches to accounting for interest rate risk and (2) supplemental capital. The CTDOB believes utilizing the "S" component in the CAMELS rating addresses interest rate risk. The CTDOB has used the CAMELS rating for some time and we find that credit unions are better prepared to measure, monitor and control interest rate risk as a result. We encourage NCUA to consider implementing the "S" component into the rating system in order to address interest rate risk through this supervisory process. We strongly encourage NCUA to work with state regulators who have already implemented the rating system in developing examiner guidance on interest rate risk. We also echo the comments made by NASCUS on supplemental capital and its inclusion in the risk-based calculation. We encourage NCUA to include supplemental forms of capital generally in the risk-based capital numerator and develop specific criteria before the implementation of the rule in 2019.

Thank you for the opportunity to comment on the NCUA's proposed rule regarding risk-based capital and your consideration of this letter.

Very truly yours,

Jorge L. Perez

JORGE L. PEREZ
BANKING COMMISSIONER

cc: The Honorable Debbi Matz, NCUA Chairman
The Honorable Rick Metsger, NCUA Vice Chairman
The Honorable J. Mark McWatters, NCUA Board Member
The Honorable Richard Blumenthal
The Honorable Christopher Murphy
The Honorable John Larson
The Honorable Joe Courtney
The Honorable Rosa DeLauro
The Honorable Jim Himes
The Honorable Elizabeth Esty
The Honorable Martin Looney
The Honorable Brendan Sharkey
The Honorable Gary Winfield
The Honorable Matthew Lesser
The Honorable Henri Martin
The Honorable Bill Simanski
Lucy Ito, President/CEO NASCUS