CEFCU
Not a bank. Better.®
P.O. Box 1715, Peoria, IL 61656-1715
309.633.7000 | 1.800.633.7077
5401 W. Dirksen Parkway, Peoria, IL 61607
www.cefcu.com

April 20, 2015

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

Re: Comments with regard to the proposed Risk Based Capital Rule II:

Dear Mr. Poliquin:

Thank you for the opportunity to comment on the modified Risk Based Capital rule proposal. We do believe that there are still changes that need to be addressed to improve the proposed rule.

NCUSIF Deposit – The modified proposal still subtracts the NCUSIF Deposit from both the numerator and denominator. The rationale for this is that it is included as equity on the NCUSIF balance sheet and an asset on credit union balance sheets. However, this calculation is supposed to reflect the risk of the individual credit union. If these amounts had not been paid to the NCUSIF, they would likely be within cash or investments of the credit union (unless the credit union has a loan to share ratio in excess of 100%). The risk to the NCUSIF is more of a systemic evaluation of which we have experienced NCUA's ability to levy premiums and assessments to cover industry losses.

Goodwill – While goodwill may not be available to cover losses in the event of a liquidation, they should not be deducted from the numerator in the calculation. Any asset valuation is questionable as to the amount of losses they may cover in a liquidation. Instead, assign a higher risk weighting to carry in the denominator of the calculation.

First lien and junior lien real estate loans – The rationale for higher weightings for portfolios in excess of 35% for first lien real estate loans and 20% for junior lien real estate loans is to address concentrations which have previously resulted in industry failures. However, many of these failures carried significantly higher levels of concentrations than these arbitrary levels. The appropriate level of mortgage related assets should be addressed in the particular credit union's asset liability management and their respective concentration policy. Instead this rule serves as an interest rate risk component which was supposedly removed in this modification.

Mortgage servicing rights – Although this makes up a small portion of our balance sheet, the risk weighting of 250% is still extreme. This asset is the result of selling mortgages to mitigate credit and/or interest rate risk or provide liquidity. Everything else being equal, the value of this asset actually increases as interest rates rise and provides a small offset to the interest rate risk of long-term mortgages held on the balance sheet. External auditors and examiners should understand and address issues with the underlying assumptions behind the valuation of these assets.

Capital adequacy – Complex credit unions would be required to have a process for assessing its overall capital adequacy in relation to its risk profile and a comprehensive written strategy for maintaining an appropriate level of capital. Strategic capital planning depends on each credit union's assessment of the risks it takes and its tolerance for risk. Unless these risks are proven to result in a credit union's capital ratio below well capitalized, the goals set for capital sufficiency should not become a target for review in an examination.

Finally, care should still be taken so as not to put credit unions at a competitive disadvantage to the banking regulation because of arbitrary risk weightings. Differences from the banking regulation should have empirical data to support the requirement of a credit union to carry a higher level of capital than their competitors for any item carried on their balance sheet.

Sincerely,

Charles E. Walker
Chief Financial Officer
CEFCU

CC: Patrick Smith, Illinois Credit Union League