CAROLINAS
CREDIT UNION LEAGUE

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April 27, 2015

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

Re: Comments on Second Proposed Risk-Based Capital Rule

Dr. Mr. Poliquin:

The Carolinas Credit Union League (CCUL), a trade association representing the interests of 160 credit unions in North and South Carolina, appreciates the opportunity to comment on NCUA's second proposed rule on "Prompt Corrective Action--Risk-Based Capital (RBC)." CCUL understands that credit unions are more than financial institutions; they are community institutions built on a philosophy of people helping people. With that in mind, CCUL works to protect and advocate for credit unions that provide financial services to their member owners.

While the second risk-based capital proposed rule is an improvement upon the original proposed rule, it remains fundamentally flawed and produces more unnecessary regulatory burden. For this reason alone the risk-based capital rule should be immediately withdrawn by the agency.

NCUA has failed to demonstrate need for a risk-based capital rule. Credit unions performed well during the great recession without having a risk-based capital rule similar to that of the FDIC, and there is no evident reason for the agency to believe such an approach will strengthen the credit union industry. Credit unions' performance through the worst financial crisis since the Great Depression proves that such a rule is not necessary.

Should the agency move forward with the risk-based capital rule, CCUL maintains there are significant issues even with the revision. Our concerns and suggested changes follow.

Uniqueness of Credit Unions

The Federal Credit Union Act directs the NCUA to develop a risk-based capital rule comparable to those by other financial regulators while reflective of credit union uniqueness. The proposed rule is instead substantially similar rather than comparable to other financial regulators, and it does not reflect the uniqueness of credit unions. In drafting the rule, the NCUA's primary focus should be on the industry's uniqueness and low risk profile. By doing so, the NCUA would have a rule that focuses on the real risks to credit unions and as such would be comparable to rules by other financial regulators. NCUA's own statistics reflect a well-capitalized credit union industry before and after the great recession, yet the agency seemingly ignored these statistics at rule drafting. A viable, effective risk-based capital rule for the industry should focus on lessons learned during the financial crisis as they relate to natural-person credit unions only.

Credit Union Service Organizations (CUSO)

CUSOs are reflective of and based on the cooperative spirit of the credit union industry. Credit unions invest in CUSOs to improve operational efficiencies, increase revenue, or provide products and services for and among credit unions that cannot otherwise offer the services due to costs. CCUL asserts that the treatment of unconsolidated CUSO investments should be 100% the same risk weight that applies to CUSO loans.

Definition of a Complex Credit Union

CCUL agrees that credit unions under $100 million should be exempt from the proposed risk-based capital rule as they do not pose a significant risk to the National Credit Union Share Insurance Fund (NCUSIF). However, CCUL continues to assert that a complex credit union is more than just the sum of its assets. The definition of a complex credit union should include not only its assets but also whether its operations warrant characterization as complex.

Summary

Capital adequacy is a dynamic process that requires a credit union to monitor performance and adjust goals toward future capital goals and its opportunities to best serve its members. Credit unions have demonstrated their ability to manage this process even in the worst of times under current regulatory measures, so a revision is unnecessary. Furthermore, the requirements of the proposed risk-based capital rule will further encumber credit unions and limit their ability to carry out their missions. Therefore, CCUL strongly urges the NCUA to withdraw the revised risk-based capital rule.

Thank you for the opportunity to comment on this proposed rule and for considering our views on its requirements.

Sincerely,

Jeanne Couchois

Jeanne Couchois
VP Regulatory & Compliance Counsel
Carolinas Credit Union League