Listerhill
CREDIT UNION

April 24, 2015

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

Re: RIN 3133-AD77, NCUA Risk-Based Capital Proposal

Dear Mr. Poliquin,

Listerhill Credit Union appreciates the opportunity to present our comments on the NCUA's second proposed risk-based capital rule (RBC2). Although significant changes are evident in RBC2 from the first proposal, we believe the proposed rule still poses grave consequences to our existing strategic vision and could negatively impact the future of the credit union movement.

Our concerns with RBC2 are similar in nature to the NCUA's first proposal:

- **Justification** – The rule is not justified since the industry is well-capitalized under existing rules.
- **Authority** – The proposed rule could allow the authority to the NCUA to impose higher capital levels than established well-capitalized levels within the proposed rule.
- **Inappropriate Risk Weightings** - Risk weightings in the proposal are not appropriate for credit unions with existing investments that meet current regulatory standards.
- **Interest Rate Risk Management** – A new separate rule on interest rate risk can add nothing meaningful to the existing rules to address interest rate risk.

Lack of Justification for the New Rule and Authority

RBC2 is not justified since the industry has just come through the worst macro-economic conditions since the Depression with the NCUSIF fund balance strong and intact, under the existing capital guidelines. During the financial crisis of 2008 to 2012 the NCUSIF fund never went below historical norms of 1.2% to 1.3% of insured deposits, even though the industry dealt with 124 credit union failures. The industry clearly demonstrated the ability to absorb catastrophic loss under existing regulations; therefore, the need seems unwarranted for such significant changes in our existing capital structure.

Authority

The standards for determining capital adequacy of RBC2 could be the most contentious area for credit unions. The proposal grants to examiners the ability to determine whether a credit union needs more capital, even if the credit union exceeds the new capital ratios and qualifies as well-

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capitalized according to standard net worth and risk-based requirements. Complex credit unions already develop appropriate capital adequacy plans that effectively manage their chosen areas of strategic risk; however, we cannot avoid services and economic opportunities with inherent risk and rewards, simply to satisfy the impulses of the annual examination process.

Risk Weights for Existing Investments
Some credit unions have investments as allowed in §701.19 of the current rules to fund employee benefits, for COLI plans, or other deferred compensation plans, that should be allowed to "grandfather" with risk-weightings no greater than 100%. The investment horizon and commitments associated with some existing plans could create immediate losses or fees if a credit union must terminate existing arrangements, simply to avoid the proposed 300% risk-weighting for separate account insurance investments. The proposed rule should not penalize credit unions that have gone through several examination cycles without comment on their existing investments in this area; only to find out they must now extricate themselves from an investment to avoid a 300% risk-weighting.

Interest Rate Risk Management
We have strong concerns with how RBC2 addresses the need for a separate new rule on interest rate risk. The fact is that some level of interest rate risk is an absolute necessity to the business cycle for credit unions; and NCUA has already put into effect many letters and rules for credit unions to measure, monitor, and manage the concerns of interest rate risk.

The NCUA's bid to create a standard level of suitable interest rate risk through a single metric, such as net economic value, is not viable. The variances in balance sheet make-up and strategic vision of any group of credit unions of similar size make a single benchmark irrelevant. Existing regulation is sufficient to allow the supervisory process to identify those credit unions unable to manage their accepted level of interest rate risk through policy, procedures, and robust internal measurement systems.

We appreciate the opportunity to comment on this proposed regulatory change.

Sincerely,

Clay Morgan
Chief Financial Officer

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