

April 27, 2015

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

RE: Comments on Proposed Rule: Risk-Based Capital; RIN 3133-AD77

Dear Gerald Poliquin,

This letter is with respect to the proposed Risk Based Capital rule (RBC2) that the NCUA is currently considering. I am writing on behalf of WestStar Credit Union and our 22,000 members in the state of Nevada.

First, thank you for taking the time to review and consider the comments from the original Risk Based Capital proposal. The changes made were generally positive and indicate that you are listening to the industry's concerns.

However, there are areas of the RBC2 proposal that are concerning. I am not a lawyer and cannot say with any certainty that the RBC proposals are legal or not. But I can say that a rule which is so focused that it only addresses the issues a very few credit unions but has negative potential impacts on the entire industry is a rule that needs further attention.

The credit union industry is well capitalized and overall is very strong and stable. Creating a new, two tiered structure that has the potential to limit growth and flexibility for these strong and stable institutions is not the proper solution. I advise that you work within the existing framework and create tools to identify struggling credit unions without adversely impacting the well run organizations that make up the vast majority of the industry.

For example, setting an arbitrary standard of \$100M to identify a complex credit union is just that – an arbitrary standard. Why \$100M? Why not \$150M? Or \$200M? The standard of complexity should be based on the assets and liabilities of the credit union and not an arbitrary threshold. You have the information from the call reports to identify a credit union that is truly complex. Use that data and establish a meaningful definition of complex that actually identifies 'complex' credit unions.

One of the items in RBC2 that is most concerning is the capital adequacy provisions. WestStar is opposed to a two tiered system, but presuming that some version of this proposal is implemented, this area needs to be changed. Our largest concern is the new requirement to have a comprehensive written strategy to maintain an appropriate level of capital.

Today, WestStar is very well capitalized under the current rules. Based on our estimates, we will be very well capitalized under the proposed rules. The proposal to create a plan to maintain 'appropriate' capital would be problematic at best. The examiners could define appropriate differently than we do and require an increase beyond the capital we have today. The examiner could find the plan insufficient and require it to be rewritten – even though we are well beyond current and proposed requirements. All of this takes a large amount of time to create a plan that may have no validity or utility at some point in the future. While well intentioned, this section should be removed from any final rule.

The NCUSIF deposit belongs to the credit union's members. As such, it is an asset of the credit union and should be treated as such in the RBC calculations. As many others have pointed out, there are circumstances in which the deposit would revert in its entirety to the credit union. Please update the calculation to include NCUSIF deposit as an asset of the credit union with no added risk weight assigned.

CUSO investments are another area in which change is needed. Assigning a 250% risk weight to this area is unnecessary. Most CUSO structures protect the investor such that the risk exposure is limited to the amount of the investment. We suggest that the CUSO weighting be limited to 100% unless the NCUA can prove/determine that the investment in the particular CUSO carries greater exposure.

With respect to the other weightings, the NCUA should not assign greater risk weights than the banking industry has. In those instances where the weighting is higher, they should be reduced at a minimum to the same standard as the banks must meet. Putting a greater burden on credit unions does not serve the individual credit union or the industry as a whole.

While the goodwill rules do not currently affect WestStar, we are concerned about the future impact the proposal can have on mergers. There should not be two standards for goodwill. Either it counts or it doesn't. The source of the goodwill – supervisory merger versus non-supervisory merger – should not be material. If the goodwill is included in the

numerator for supervisory mergers than it should be included for non-supervisory mergers as well.

It was positive to see that the NCUA removed IRR from the RBC2 proposal. Any solution to the IRR concerns must be addressed at an individual credit union level. As has been seen with RBC, a one size fits all solution for IRR will not be workable. If a rule is deemed necessary by the NCUA, net economic value as well as net interest income simulations should be included. However, given the variability of results from these models, based on the assumptions utilized, it will be very important for the NCUA to have examiners trained specifically in IRR and ALM.

In summary, while significantly improved from the original proposal, RBC2 has many issues that still need to be addressed, including whether it is both legal and appropriate at this time. Thank you for listening to our concerns with RBC1. I hope that you will listen as closely to the comments for RBC2.

Sincerely,

Rick Schmidt  
President/CEO  
Weststar CU

cc: CUNA, CCUL