From:	Amy Holloway
To:	_Regulatory Comments
Subject:	Amy Holloway-comments on proposed rule: risk based capital (rbc2)
Date:	Monday, April 27, 2015 12:55:46 PM
Attachments:	image002.png image003.png

To whom it may concern:

Although the updated RBC2 represents an improvement from the original proposal, it still remains fundamentally flawed on various levels. I fully support the concept for risk-based capital for credit unions in its revised format, but would still like to express my concern and offer the following comments with the anticipation of improvements on the proposal.

The National Credit Union Administration has not demonstrated problems related to current prompt corrective action (PCA) regulation, other than a few isolated incidents. Credit unions have long positioned themselves to be able to withstand economic hardships. The RBC2 proposal is hurting instead of helping the financial health of credit unions.

RBC2 proposal increased this threshold from $50 million to $100 million. There are still concerns with the approach of defining credit unions as complex simply based on asset size. NCUA should define complex with factors such as deposit account types, member services, loan and investment types, and portfolio composition. We feel this approach is more consistent with the Federal Credit Union Act which requires NCUA to consider “the portfolio of assets and liabilities” of credit unions when determining whether they are “complex.”

Defining a “complex” credit union by asset size is arbitrary and makes no sense. A credit union has complex risks only if it engages in complex activities. A credit union’s activities, not its asset size, should determine whether it has a need for a risk based capital requirement.

In general, the RBC1 and RBC2 would require the subtraction of goodwill from capital in the RBC ratio. RBC2 would allow a credit union to include “supervisory” goodwill as part of capital, but this provision would expire in January 2025. Some credit unions engaged in mergers with troubled credit unions during the recent financial crisis as a way to reduce insurance losses to the NCUSIF. Some of these credit unions would be harmed if they were no longer permitted to include this supervisory goodwill after 2024. Goodwill arising from previous supervisory mergers should be grandfathered and allowed to be counted as risk-based capital without a time limit so long as it meets GAAP requirements.

The use of goodwill allows a credit union to absorb a struggling credit union without negatively impacting the NCUSIF, which as an industry we must find ways to innovate. Goodwill should not be immediately deducted from the numerator of the risk-based capital ratio. Goodwill arising from both previous and future mergers should continue to be counted without a time limitation, so long as it meets GAAP requirements.

I appreciate the opportunity to voice my concerns regarding revised Risk-Based Capital proposal. I sincerely hope you take my comments and views into considerations for possible improvements on the proposal.

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