

## **Regulatory Comments**

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**From:** James Pellerito <no-reply@cuanswers.com>  
**Sent:** Friday, February 27, 2015 2:07 PM  
**To:** \_Regulatory Comments  
**Subject:** Risk-Based Capital Comment

To: Regulatory Comments  
From: James Pellerito  
CU\*Answers

02/27/2015

Dear Mr. Poliquin:

I believe the revised RBC rule penalizes credit unions for specific activities such as real estate lending, member business lending, and credit unions chartered to assist the un-bankable by placing a capital tax on the resulting assets of low income or poor credit lending. We believe the end result will be thousands of homogenous balance sheets in 2025 that you can easily understand from a supervisory perspective. However, this current risk posture of the NCUA cannot fail but to lead credit unions to shy away from diversity or cooperative reason for the charter and field of membership. The end result of this rule will ultimately force credit unions into potential areas of investment and lending that the credit union lacks experience with or create industry wide concentrations that could be impacted by similar economic variables. In and of itself, this rule creates more risk than it proposes to control.

The NCUA and the credit union industry would both be served better if the formulas and risk weights within RBC were not given the force of law. Do not force my credit union to institute changes both potentially drastic and unwarranted in our balance sheet to meet these arbitrary weights.

The NCUA is straining hard to justify its legal interpretation of a Rule that has significant practical problems. The \$100,000 asset size cut off is arbitrary. The risk weighting is arbitrary. Adherence to this rule could cause credit unions to build up concentrations in assets that turn out to be risky. Why doesn't the NCUA allow for a rule that allows for supplemental capital, which would likely be far greater benefit to the industry and greatly reduce the risk to the Share Insurance Fund? Finally, why should the industry accept RBC when it suffers from these problems and may very well be an overextension of the NCUA's authority in any event?

We must stop the debate about the nuances of the rule and convince the NCUA, after outlining the substantial objections, that the modeling approach needs to be tested and tried in the examination process as a tool and then the results shared with the industry before suggesting that a model be embedded in a law.

James M Pellerite

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