

Regulatory Comments

From: Justyn Priest <no-reply@cuanswers.com>
Sent: Friday, February 27, 2015 5:16 PM
To: _Regulatory Comments
Subject: Risk-Based Capital Comment

To: Regulatory Comments
From: Justyn Priest
CU*Northwest

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.

Congress intended for the NCUA to develop rules around credit union complexity that would take into account the diversity of credit unions. An arbitrary asset cut-off point is contrary to the mission Congress provided to the NCUA, which is to take in account the special nature of my members' relationship with my credit union.

Our credit union board and management team are making numerous decisions about the composition of our balance sheet and capital adequacy based on the needs of our unique membership and local community. These factors do not just take into consideration the asset type, but include the reasons for our charter to begin with, corresponding funding from liabilities, and unique economic needs of the communities they serve. These thousands of local decisions are driven by diverse business priorities, pricing and growth objectives as well as responses to unique local needs. We believe our decisions have resulted in varied portfolio strategies which enhance the balance sheet's overall soundness rather than a single approach nationwide to risk management. RBC2 puts that at risk.

Although Congress has stated NCUA must develop risk based capital standards and they must be formulated in a similar fashion as the banking industry, we do not believe Congress wished to create a tax on members and abandon the cooperative principals of credit unions. Since the publication in the Federal Register the actual costs associated with this capital tax have been challenged. Recently NAFCU published an estimate that credit unions will need to raise an additional \$760 million dollars in capital to achieve their current capital levels. Because credit unions only have one source of earnings, that additional capital tax must come directly out of our members' pockets through a reduction in savings rates, increase in loan rates, and potentially changes to transaction fees. We believe NCUA's estimate falls far short of the actual cost to the industry and again focused on the potential risk to the insurance fund rather than those they regulate and ultimately their members. In an effort to remain the best financial resource for our members, we would encourage the NCUA to withdraw the proposed rule altogether.

I would like to recommend that the NCUA truly believes that this rule will uncover the outliers and those credit unions that should operate with higher levels of capital than make this rule a test similar to those currently being performed like the 17/4. The OCC has numerous ratios and tests which they perform based upon call report information such as the canary ratios. These ratios are designed to uncover outliers and direct supervision in these areas to review.

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.

A handwritten signature in black ink, appearing to read 'JP', with a long horizontal flourish extending to the right.

Justyn Priest
CU*Northwest