From:	Jon Jeffreys
To:	_Regulatory Comments
Subject:	Risk Based capital comment
Date:	Wednesday, April 01, 2015 4:00:29 PM

Dear Mr. Poliquin:

I am wring as a member of Pentagon Federal Credit Union. Thank you for the opportunity to comment on NCUA's revised proposed rule for Risk Based Capital.

While I appreciate NCUA's efforts at improving the original risk based capital rule, I remain unconvinced that a risk based capital rule is necessary, nor that it would even be effective at preventing credit union failures. In essence, I believe the revised rule represents a solution that won't work to a problem that doesn't exist.

I further believe NCUA is overlooking an elegant and meaningful opportunity to accomplish the goals of its RBC II proposal in a way that combines regulatory restraint with good public policy. I therefor ask that NCUA:

1. Reject the new RBC II rule in its entirety and work towards a risk-based modelling tool for examiners to use as part of the examination process;

2. Maintain and strengthen, if necessary, the current leverage ratio rule as it has proven over and over again to be the best measure of capital and financial stability;

3. Recognize that RBC II as proposed only changes the capital ratings of a handful of credit unions. This is strong evidence that the rule is not even necessary - the vast majority of credit unions, already have sufficient capital as measured by the simple leverage ratio.

RBC as a Modelling Tool

I believe NCUA could achieve all the goals of RBC II in a far more flexible and pragmatic way by making the proposal a modelling tool rather than a rule, similar to interest rate risk monitoring tools. Examiners, boards, and managers could calculate RBC using risk weights appropriate for each credit union's environment, and discuss with boards and management their views of risk for various asset classes. As conditions change, NCUA could adjust RBC weighting to evaluate the impacts particular to individual credit unions. A model is far more flexible than a rigid rule, and allows opportunities to pragmatically manage risk, rather than distort decision making through rule-based estimates of risk which may or may not be accurate.

Leverage Ratio

I believe there is no evidence that a Basel-style RBC rule has ever been effective at predicting risk or preventing financial institution failures. I ask that the NCUA Board take time to study the work of Mr. Thomas M. Hoenig, vice chairman of the Federal Deposit Insurance Corporation. Among his many comments on the subject is this, from a speech given April 9, 2013:

> "*Finally, we should not accept even comforting errors of logic which suggest that Basel III requirements will create stronger capital than those of Basel II, which failed. Instead, past industry performance and mounting academic and other evidence suggest that we would be best served to focus on a strong leverage ratio standard in judging a firm and the industry's financial strength. Our responsibility as regulators and deposit insurers is to choose the best available measure that will contribute to financial stability*".

It is clear that Mr. Hoenig does not view Basel-style risk estimates of the best measure of financial stability, and history has proven him right. NCUA should not follow with Basel-style standards of its own.

In conclusion, NCUA has an opportunity to lead all financial institution regulators to pragmatically improve risk management, and in a way that shows much needed regulatory restraint. By using RBC II as a model, rather than a rule, credit unions and examiners alike will have a better, more flexible tool for managing risk, without treating all credit unions as if they were for-profit banks.

You can get what you want without a new rule to distort credit union decision-making. I therefore urge NCUA to discard this proposal and return to the strong leverage ratio as the best measure of risk capital for credit unions.

Respectfully submitted,

Jon Jeffreys