

From: [Blake Burrell](#)
To: [Regulatory Comments](#)
Subject: Risk Base Capital
Date: Monday, April 06, 2015 6:01:14 PM

April 2, 2015

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

Re: Comments on Proposed Rule: Risk Based Capital

Dear Mr. Poliquin,

I appreciate the opportunity to share my comments regarding the Risk Based Capital Rule. Wasatch Peaks Federal Credit Union is located in Ogden, Utah, with 30,333 members, \$267 million in assets and 6 branches.

I commend NCUA for reviewing the first proposal and making substantial changes that I feel improved it greatly. However, I feel that there are still some areas where the new proposal falls short in in reality generates a capital tax.

First, I don't quite understand why Goodwill is only being exempt for 10 years to Credit Unions that have Supervisory Goodwill. To take it one step further, why would any Goodwill be excluded if it was done before knowledge of the rule was known? We have done 2 strategic mergers that took 3 credit unions with average net worth of 7% and made a larger more competitive credit union that now has a net worth greater than 10%. I do not understand why a Supervisory Merger would be looked at any different than a Strategic Merger.

1. If both created Goodwill, according to GAAP, there is value there. We have to have our Goodwill valued each year to make sure that it has not been impaired. If there is an impairment then the Goodwill would have to be written down. That seems like a more accurate way to judge the value of an asset by determining the value from an impartial and unbiased third party.
2. If these mergers were part of a strategic plan that was accomplished before a new Risk Based Capital rule was known about then how does NCUA justify that Credit Unions that have made decisions based upon the rules available to them are now being changed. It seems to me that there would be a Grandfathering to these Credit Unions for those decisions.

Second, the proposed rule deducts the NCUSIF deposit from the risk-based capital numerator. It is not clear what NCUA's intent is regarding the NCUSIF deposit. It looks like NCUA is trying to make the numerator look similar to the Banks, in that, they expense their insurance premiums that they pay on a quarterly basis. The methodology is flawed because the banks do not have a deposit held by the FDIC, but rather pay a quarterly premium that is not refundable. There are instances where credit unions could have its NCUSIF deposit returned such as: conversion to a mutual savings association, election of private insurance rather than NCUA coverage or voluntary liquidation. GAAP recognizes this deposit as an asset; therefore, it does not make sense to treat the deposit as an intangible asset given that it is easily measured and can be returned or refunded.

Third, I appreciate the logic of risk based weighting of assets and it is self-evident that some loans are inherently riskier than others and ensuring sufficient capacity to cover losses is a requirement of responsible lending. This rule in no way addresses what I believe is the real issue and that is credit risk and not risky

assets. Any systemic rule must be relatively simplistic and inflexible, but credit risk management is a complex and nuanced thing. Twenty years ago we had a loan officer that made a lot of bad RV type loans and because of her actions the credit union suffer large losses. It took me years to get my Board of Directors to look at RV lending because of this experience. They honestly believed that all RV loans were bad because of this prior experience. I had to get them to understand that any loan is risky and bad if underwritten poorly and the inverse is true, any loan is good and not risky if underwritten properly. I know NCUA understands this principle because I see how they monitor our underwriting when they do exams. So it does not make any sense to make credit unions suffer with additional regulations that do a good job with their underwriting and credit risk. Is this not why we have exams?

In summary I believe that effective supervision is not rule making. It is intelligent exams and patient reorganization when problems arise.

Thank you,

C. Blake Burrell
Wasatch Peaks Federal Credit Union

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