



Office of the Chairman

March 5, 2014

Mr. Bill Cheney
President and CEO
Credit Union National Association
601 Pennsylvania Ave, NW, Suite 600
Washington, DC 20004-2601

Mr. Dan Berger
President and CEO
National Association of Federal Credit Unions
3138 10th Street North
Arlington, VA 22201-2149

Dear Bill and Dan:

Thank you for your joint letter requesting NCUA extend the current 90-day comment period on the Risk-Based Capital (RBC) rule proposed by the NCUA Board at our January 23, 2014, Board meeting.

I first publicly mentioned NCUA would propose a RBC rule during a speech to NAFCU's Congressional Caucus in September 2011. In the past two years, we have been working carefully and diligently on this proposed rule, exhaustively reviewing multiple scenarios, and balancing the myriad of sometimes competing factors required to produce a good public policy outcome.

To that end, it was critical to analyze any proposed RBC formula to ensure it would have set a higher capital standard for the highest-risk credit unions during the financial crisis. While we recognized that most of America's credit unions survived the crisis with relatively strong capital positions, we could not forget that 102 natural-person credit unions failed during the crisis – costing the National Credit Union Share Insurance Fund \$765 million. Many of those failed credit unions appeared to have strong net worth ratios, but in fact they did not have enough capital to account for their risks.

If NCUA had a strong RBC rule in place during the crisis, the agency could have mitigated the losses from credit unions that failed – and perhaps even saved more credit unions from failing. Either way **a strong RBC rule could have saved all credit unions from paying as much as they did to cover those failures.**

NCUA waited until FDIC finalized its BASEL III proposal for banks in July of 2013 before we proposed our RBC rule; as you know, we have a statutory responsibility to ensure NCUA's risk-based capital calculation is "comparable" to other federal regulators.¹ The Federal Credit Union Act also instructs NCUA to take into account all material risks (including interest rate risk and concentration risk), not just credit risk as BASEL III does, in updating NCUA's risk-based calculation. Just as the current NCUA risk-based net worth rule exempts two-thirds of credit unions as small entities, so does the proposed RBC rule.

¹ Section 1790d(b)(1)(a) of the Federal Credit Union Act requires NCUA's Prompt Corrective Action (PCA) requirements to be comparable with those of the other federal banking agencies.

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While the Board acted to propose the rule on January 23, 2014, the proposed rule did not enter *The Federal Register* for more than a full month. With a late February publication date, the effective comment deadline is now officially set for May 28, 2014. By that date, **credit union officials will actually have had more than 120 days to analyze the proposed RBC rule**, provide their comments on the rule's effect on their current operations and plans for the future, as well as provide their suggestions and recommendations to NCUA, which we strongly encourage.

Following this unusually lengthy written comment period, I will be holding Listening Sessions in 2014 (just as I did in 2010 and 2012) to hear directly from credit union officials. In fact, allowing the comment period to close on May 28 will make the Listening Sessions in June and July more productive. By the time the first Listening Session convenes on June 26, NCUA staff will have prepared a summary of all comment letters. As a result, we will be better positioned during the Listening Sessions to discuss potential strategies to address issues of common concern. In addition, the Listening Sessions will provide opportunities to raise issues that go beyond the written comments.

The proposed rule will also have a lengthy phase-in period, currently proposed at 18 months, to allow ample time for any affected credit unions (currently less than 200) to position their balance sheets to come into compliance, whether it by earnings retention to increase capital, or by strategically shedding riskier assets, or some strategic combination of the two.

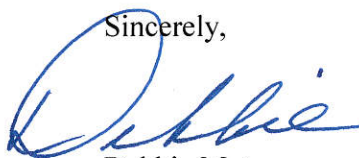
Just as NCUA incorporated significant changes to our final rules on troubled debt restructurings, loan participations, and derivatives amongst others, based on public comments, I assure you NCUA will do so, as appropriate, on this critically important rule.

You may be pleased to know that from my perspective, RBC is the last significant safety and soundness rulemaking in our Regulatory Modernization Initiative. I am confident NCUA's modernized rules, taken together, provide a regulatory framework that will keep the credit union system safe and sound into the future, without stifling either prudent growth or member services.

The RBC initiative applies the lessons learned during the financial crisis that negatively affected credit unions individually and entire credit union system, addresses both Government Accountability Office and NCUA Inspector General's recommendations for NCUA regulatory and supervisory improvements, and looks ahead to continuing and emerging risks to safety soundness.

Thank you for sharing your views.

Sincerely,



Debbie Matz
Chairman

cc: The Honorable Michael E. Fryzel, NCUA, Board Member
The Honorable Rick Metsger, NCUA, Board Member