National Credit Union Administration

Office of the Chairman

July 18, 2014

The Honorable Patrick McHenry
Chairman
House Financial Services Subcommittee
on Oversight and Investigations
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman McHenry:

Thank you for your July 7 letter about NCUA's proposed rule to revise the agency's risk-based capital regulation for federally insured credit unions. As a starting point, I want to emphasize that the NCUA Board is committed to carefully considering the concerns of all stakeholders and making needed adjustments to the proposal before adopting a final rule.

Several factors compelled the NCUA Board in January to propose amendments to modernize the agency's current risk-based capital regulations, including: lessons learned during the recent financial crisis, the issuance of the new Basel capital standards, recommendations of the Government Accountability Office and NCUA's Inspector General, and the issuance last year of new risk-based capital rules by the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency, and the Board of Governors of the Federal Reserve.

Under the Federal Credit Union Act, NCUA is required to adopt a risk-based capital requirement that is comparable to the requirement for banks,[1] but that also takes into account <u>any</u> material risks to credit unions[2] and the unique nature of credit unions.[3]

In all, NCUA received 2,056 comments in response to the risk-based capital proposal, the most in the agency's history. While NCUA staff are now carefully analyzing these comments, the volume and depth of the letters we received—some as long as 47 pages—indicate a thoughtful and considered review of all relevant issues. In drafting the final rule, the NCUA Board will continue to remain mindful of the trade-offs between the benefits and impacts of the regulation on credit unions, so that credit remains available for consumers, homebuyers, family farms, and small businesses.

Your letter specifically requests that NCUA provide the House Financial Services Subcommittee on Oversight and Investigations the following information:

- Any cost-benefit analysis performed by NCUA or that otherwise formed part of the administrative record in this matter.

[1] 12 U.S.C. 1790d(b)(1)(A)(ii).
[2] 12 U.S.C. 1790d(d)(2).
[3] 12 U.S.C. 1790d(b)(1)(B).

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- The metrics used to determine what asset classifications required revision.
- A justification for the revised weighting associated with each individual asset class.
- An explanation of the extent to which NCUA examiners would be empowered to assess and make capital recommendations to credit unions that might deviate from the new risk-based capital standards.

NCUA's responses to each of these requests follow. For purposes of this reply, we have combined the second and third points into a single response because the two issues overlap.

Consideration of the Benefits and Effects of the Proposed Rule

In issuing the proposed rule, our goal is to ensure that a federally insured credit union holds capital commensurate with the institution's level of risk. In other words, NCUA is seeking to ensure that those federally insured credit unions that have a higher appetite for risk hold enough capital to match that risk. Accordingly, the proposal seeks to scale the capital requirements based on an individual credit union's balance sheet risks. Additionally, the proposed rule is similar to the risk-based capital rules for other U.S. financial institutions and provides the flexibility envisioned in the Basel capital accords.

Ensuring that credit unions hold sufficient capital to withstand reasonable economic shocks is fundamental to ensuring the safety and soundness of the credit union system. Requiring each federally insured credit union to hold sufficient capital protects not only the National Credit Union Share Insurance Fund, but also federally insured credit unions, U.S. taxpayers, and the 97.1 million federally insured credit union members from losses.

Under NCUA's proposed rule, the overwhelming majority of credit unions would experience no change in their assigned prompt corrective action category. Overall, the proposed rule would only apply to federally insured credit unions with assets of $50 million or more—2,200 out of about 6,500. As a result, the 4,300 federally insured credit unions below $50 million in assets—two-thirds of all credit unions—are not affected by the proposed rule. No small credit union's capital requirement would be affected by the proposed rule.

Of the 2,200 credit unions that would be subject to the proposal, nearly half would actually see an <u>improvement</u> in their capital levels relative to their risks. Additionally, because the overwhelming majority of these 2,200 credit unions would experience no change in their prompt corrective action category under NCUA's proposed rule, the proposal would not require them to raise any additional capital or reduce their risk.

Based on December 2013 Call Report data, under the proposed rule 92 percent of all federally insured credit unions would remain well capitalized, 5 percent of credit unions that are currently undercapitalized would remain so, and only 3 percent of credit unions would see a reduction in their prompt corrective action category. Only 201 federally insured credit unions comprise the 3

percent affected by the proposed rule. NCUA estimates that under the proposed rule these credit unions would need to collectively hold an additional $633 million in capital (equivalent to 0.8 percent of their combined assets of $80 billion) to reach the well-capitalized level—but only if all 201 choose to maintain their balance sheets' current risk exposures. Alternatively, without raising any more capital, these affected credit unions could reduce their risk-weighted assets; or they could choose a combination of these two strategies.

In addition to the impact analysis included in the proposed rule,[4] we back-tested the proposed risk-based capital rule on consumer credit union failures that created the largest losses to the National Credit Union Share Insurance Fund since 2007. In 14 of the 15 failures tested, the credit unions would have held substantially more capital if they had been operating with the level of risk-based capital required in the proposed rule. The maintenance of higher minimum risk-based capital levels in these institutions may have prevented their failure and would have reduced the amount of losses incurred by the National Credit Union Share Insurance Fund by as much as $180 million.

I am very concerned about the dissemination of misinformation about the costs of the proposed rule by some parties. Some trade associations have estimated that the implementation costs could run as high as $7 billion. These overstated figures are based on a questionable assumption that every federally insured credit union would seek to maintain its current capital cushion above the regulatory minimum to be well-capitalized. Additionally, the measure of an individual credit union's capital adequacy should not be based upon maintaining a targeted dollar amount above the regulatory minimum. Proper capital adequacy measurement should be much more granular and based on each credit union's strategic plan and risk profile.

While the proposed rule establishes minimum risk-based capital standards, the decision about whether to hold a capital cushion that exceeds the minimum standards and how large that capital cushion should be is a business decision that each credit union makes on its own. I emphasize that the proposed rule does not require credit unions to maintain any specific capital cushion above the regulatory minimum standard for being well-capitalized.

NCUA is committed to conducting further reasonable impact analyses in response to the comments received on the proposed rule before issuing a final rule on risk-based capital. The final rule will include the necessary economic and impact analyses required by law.

Metrics and Rationale Supporting Proposed Risk Weights

NCUA issued the proposed rule to modernize NCUA's risk-based capital requirements and better calibrate the requirements to the risks that federally insured credit unions face today and will face in the future. NCUA developed the proposed risk weights based on available credit union data and the risk-based capital requirements applicable to banks.

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[4] 79 FR 11184, 11187-11188 (Feb. 27, 2014).

While striving for overall comparability with the risk-based capital rules of other federal banking agencies, NCUA has proposed several risk weights that differ from those of the risk-based capital requirement applicable to banks. For example, the proposal sets a lower weight of 75 percent for consumer loans held by credit unions, which is lower than the banking system's risk weight of 100 percent.

NCUA also proposed retaining the tiered risk-weighting approach in the current risk-based rule to account for the risk associated with credit unions holding higher concentrations of member business loans and mortgage loans. Maintaining the tiered risk-weighting approach is consistent with a 2012 report by the Government Accountability Office, which specifically recommended that NCUA address such concentration risk.[5] Similarly, NCUA proposed maintaining the tiered risk-weighting approach in the current rule for longer-term investments in order to account for interest rate risk and liquidity risk.

Per your request, the enclosed schedule of the risk weights for each asset class contains the applicable risk weight under NCUA's current rule, the proposed rule's risk weight, the FDIC's risk weight, and a summary of NCUA's rationale for the proposed risk weight. Prepared by NCUA staff, this schedule summarizes information found in the proposed rule.

As part of the rulemaking process, the NCUA Board will carefully review and fully consider each of the comments received when determining how best to calibrate the final risk weights. The stakeholder feedback will help to inform us in determining the most appropriate risk weight for each asset type. Further, in issuing the final rule, we will respond to all of the significant comments received on the proposed rule.

Individual Minimum Capital Requirements

Your letter requests an explanation as to how on a case-by-case basis NCUA would impose an individual minimum capital requirement above the risk-based capital requirement contained in the proposed rule. NCUA appreciates your concerns and understands the need to provide marketplace certainty to federally insured credit unions.

Because risk-based capital standards are generally based on broad credit risk and concentration considerations, they can result in a minimum capital requirement that is well below what is sufficient for the risks of some financial institutions. For this reason, Basel II includes under Pillar II a provision that supervisors should have the ability to require institutions to hold capital in excess of the minimum. The other federal banking agencies have specifically retained this authority in their risk-based capital regulations.

Given the inherent limitations of any broadly applicable risk-based capital framework and constant innovation in the marketplace, Congress recognized the need for NCUA in certain instances to require a credit union with excessive risk to hold additional capital to protect against

[5] U.S. Government Accountability Office, GAO-12-247, *Earlier Actions Are Needed to Better Address Troubled Credit Unions*, 15, 18 & 51 (Jan. 2012),.

that risk.[6] The NCUA Board, however, has never used this power to establish an individual minimum capital requirement. The FDIC has also long maintained this authority, and NCUA staff used the FDIC's rule as a basis for NCUA's proposed rule.[7]

As a prudential matter, NCUA expects a complex credit union to have internal processes for assessing capital adequacy that reflect a full understanding of its risk exposure and ensure that it holds capital corresponding to those risks. The nature of such capital adequacy assessments should be commensurate with the credit union's size, complexity, and risk profile.

NCUA's supervisory assessments of credit unions' capital adequacy take into account whether a credit union plans appropriately to maintain an adequate level of capital given its activities and risk profile, as well as risks and other factors that can affect a credit union's financial condition. NCUA's supervisory assessments also consider the potential impact on earnings and the capital base from prospective economic conditions. For this reason, supervisory assessments of capital adequacy may differ from conclusions that might be drawn solely from the level of a credit union's regulatory capital ratios.

The proposed rule includes a provision that permits the NCUA Board (not any individual examiner) to require a higher minimum risk-based capital ratio for an individual credit union in an extraordinary case where the circumstances indicate that a higher minimum risk-based capital requirement is appropriate. The proposed rule also sets forth specific due process procedures that NCUA must follow before issuing an individual minimum capital requirement, including prior notice and a right to appeal.

Among other things, the proposed rule requires that NCUA provide notice of the intention to impose an individual minimum capital requirement, including:

- The specific minimum capital levels that the NCUA Board intends to impose on the credit union under the individual minimum capital requirement, and the specific causes for determining that the higher individual minimum capital requirement is necessary or appropriate for the credit union.

- The proposed schedule for compliance with the new requirement.

- That the credit union may appeal by filing a written response to the notice.

- That the credit union is permitted to request the recommendation of NCUA's ombudsman.

While it is the examiner's duty to recommend, through the chain of command, the imposition of an individual minimum capital requirement, if one is necessary, nothing in the proposed rule would authorize an examiner to take such an action directly. Thus, this authority would be reserved solely for the NCUA Board.

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[6] 12 U.S.C. 1790d(h).
[7] 12 CFR 324.1(d).

As we proceed with consideration of the risk-based capital rule, we will keep in mind stakeholder concerns that the individual minimum capital requirement provision is properly scoped and sufficiently limited.

In closing, I appreciate your interest in NCUA's proposed risk-based capital rule. Please do not hesitate to contact me about any additional questions or concerns you may have.

Sincerely,

Debbie Matz
Chairman

Enclosure

cc: The Honorable Al Green
Ranking Member
House Financial Services Subcommittee
on Oversight and Investigations
2201 Rayburn House Office Building
Washington, DC 20515

Summary Table of Changes in Risk Weights

Asset	Current Rule Inferred Risk Weight[1]	FDIC	Proposed Rule Risk Weight	Rationale
Cash and Investments				
Cash on deposit	29%	0% to 20%	20%	This proposed risk weighting is consistent with the other federal banking regulatory agencies' capital rules (See 12 CFR 324.32), which maintained a 20 percent risk weight for exposures to U.S. depository institutions. See 78 FR 55339 (Sept. 10, 2013) (FDIC rule); and 79 FR 11184 & 11199 (Feb. 27, 2014) (NCUA's risk-based capital proposed rule).
Cash equivalents	29%	0% to 20%	20%	This proposed risk weighting is consistent with the other federal banking regulatory agencies' capital rules (See, 12 CFR 324.32), which maintained a 20 percent risk weight for exposures to U.S. depository institutions. See 78 FR 55339 (Sept. 10, 2013); and 79 FR 11188 & 11199 (Feb. 27, 2014).
Treasury investments and NCUA Guaranteed Notes	29% to 190% based on Weighted Average Life (WAL) 0% on NCUA Guaranteed Notes	0%	0%	This proposed risk weighting is consistent with the other federal banking regulatory agencies' capital rules (See 12 CFR 324.32), which maintained a zero percent risk weight for an exposure that directly and unconditionally guaranteed by the U.S. Government. See 78 FR 55339 (Sept. 10, 2013). In the current rule the risk weight is based on the Weighted Average Life (WAL) of the Treasury investment. The proposed rule maintained the zero percent risk weight for NCUA Guaranteed Notes. See 79 FR 11194 & 11199 (Feb. 27, 2014).
Non-perpetual capital in corporate credit union	57%	250% to 400%	100%	Non-publicly traded equity investments in the corporate credit union which generally have long-term maturity. Similar equity exposures under the other federal banking regulatory agencies' capital rules receive a risk weight of 250 to 400 percent. See 79 FR 11195-11196 & 11199 (Feb. 27, 2014).
Perpetual capital in corporate credit union	57%	250% to 400%	200%	Non-publicly traded equity investment in the corporate credit union that cannot be redeemed except under limited circumstances. Similar equity exposures under the other federal banking regulatory agencies' capital rules receive a risk weight of 250 to 400 percent. See 79 FR 11190 & 11200 (Feb. 27, 2014).
Other investments maturity/WAL < 1 year	29%	Varies based on credit risk	20%	NCUA proposed reducing the risk weight to more closely align it with the other federal banking regulatory agencies' capital rules (See 12 CFR 324.32), which maintained a 20 percent risk weight for claims on U.S. depository institutions, GSEs, and conditionally guaranteed exposures of the U.S. Government or U.S. Government agency. See 78 FR 55339 (Sept. 10, 2013) (FDIC Final Rule); and 79 FR 11190 & 11195 (Feb. 27, 2014).
Other investments maturity/WAL > 1 year and ≤ 3 years	57%	Varies based on credit risk	50%	NCUA proposed reducing the risk weight to reflect the high degree of liquidity for such investment. See FR 11190 & 11195-11196 (Feb. 27, 2014).

[1] The risk weightings were converted to a comparable risk weight by dividing the current risk weighting by 10.5 percent, representing the level of risk-weighted capital needed to be well-capitalized. For example, in the current rule, long-term real estate loans less than the 25 percent threshold receive a 6 percent risk weighting, which is equivalent to a 57 percent risk weight under this proposal (6 percent divided by 10.5 percent).

Asset	Current Rule Inferred Risk Weight[1]	FDIC	Proposed Rule Risk Weight	Rationale
Other investments maturity/ WAL > 3 years and ≤ 5 years	114%	Varies based on credit risk	75%	NCUA proposed reducing the risk weight significantly from current risk weight. The proposed risk weight for investments with a WAL of less than 5 years would be lowered, relative to the existing rule, to reflect the low interest-rate risk and liquidity risk of such investments. For example, the price change for 0.5 percent, 2-year Treasury investment is a decline of 6 percent with a 300 basis point increase in interest rates. See 79 FR 11190 & 11195-11196 (Feb. 27, 2014).
Other investments maturity/WAL > 5 years and ≤ 10 years	114%	Varies based on credit risk	150%	The current risk weights for investments relied on the results of 300 basis point interest rate "shock tests" to corroborate the assigned risk weights. The 300 basis point shock test is a widely accepted measure of interest rate risk. For example, the price change for a 2.5 percent, 10-year Treasury investment is a decline of 23 percent on a 300 basis point increase in interest rates. See 79 FR11190 & 11195-11196 (Feb. 27, 2014).
Other investments maturity/WAL > 10 years	190%	Varies based on credit risk	200%	The current risk weights for investments are based on the results of 300 basis point interest rate "shock tests" that were performed to corroborate the assigned risk weights. For example, the price change for a 3.5 percent Fannie Mae 30-year mortgage-backed security is a decline of 21 percent on a 300 basis point increase in interest rates. See 79 FR 11190 & 11195-11196 (Feb. 27, 2014).
Asset-backed investment with lack of due diligence	n/a	1,250%	1,250%	This proposed risk weighting is consistent with the other federal banking regulatory agencies' capital rules (See 12 CFR 324.32), which requires a 1,250-percent risk weight for certain investments if a banking organization is not able to meet the due diligence requirements and demonstrate a comprehensive understand of the exposure. See 78 FR 55339 (Sept. 10, 2013); and 79 FR 11195, 11200 & 11202 (Feb. 27, 2014).
Consumer Loans				
Current credit card, other unsecured, new vehicle leases, all other consumer loans	57%	100%	75%	This proposed risk weighting is lower than the other federal banking regulatory agencies' capital rules (See 12 CFR 324.32), which maintained the 100-percent risk weight for non-delinquent consumer loans. See 78 FR 55339 (Sept. 10, 2013). The European Union Capital Requirements Regulation Article 123 assigned a 75-percent risk weight to retail exposures granted to natural persons or small or medium-sized enterprises. See 79 FR 11198 & 11200 (Feb. 27, 2014).
Delinquent consumer loans	57%	150%	150%	This proposed risk weighting is consistent with the other federal banking regulatory agencies' capital rules (See 12 CFR 324.32), which require a 150-percent risk weight to a loan that becomes past due with the exception of certain residential loans. See 78 FR 55339 (Sept. 10, 2013). The Basel II standard approach provides risk weights ranging from 50 to 150 percent for exposures, except sovereign exposures and residential mortgage exposures, that are more than 90 days past due to reflect the increased risk of loss. See 79 FR 11190, 11195-11196 & 11198 (Feb. 27, 2014).
Non-federally guaranteed student loans	57%	100%	100%	NCUA proposed increasing this risk weight because non-federally guaranteed student loans are subject to long-life, limited cash flows (deferrals), elevated delinquency, and higher loss trends. See 79 FR 11195 & 11198 (Feb. 27, 2014).

Asset	Current Rule Inferred Risk Weight[1]	FDIC	Proposed Rule Risk Weight	Rationale
Non-delinquent U.S. guaranteed student loans	57%	0%	0%	This proposed risk weighting is consistent with the other federal banking regulatory agencies' capital rules (See 12 CFR 324.32), which maintained a zero-percent risk weight for an exposure that directly and unconditionally guaranteed by the U.S. Government. See 78 FR 55339 (Sept. 10, 2013); and 79 FR 11194 & 11198-11199 (Feb. 27, 2014).
Real Estate Loans				In the proposal, NCUA generally maintained the concentration thresholds in the current rule and provided a reduction in capital for first mortgage real estate loans. See 79 FR 11194 (Feb. 27, 2014).
Qualified real estate loans[2] 0% to 25% of assets	57%		n/a	
Qualified real estate loans over 25% of assets	157%		n/a	
All other real estate loans	57%		n/a	
Current 1st lien 0% to 25% of assets	n/a	50%	50%	This proposed risk weight is consistent with the other federal banking regulatory agencies' capital rules (See 12 CFR 324.32), which maintained the 50-percent risk weight for one-to-four unit family real estate loans that are secured by a first lien, prudently underwritten, not 90 days or more past due, and not restructured or modified. See 78 FR 55339 (Sept. 10, 2013). The proposal recognizes the lower loss history for current, prudently written first lien real estate-secured loans by assigning a lower risk weight to the first 25 percent of assets. See 79 FR 11197-11198 (Feb. 27, 2014).
Current 1st lien 25% to 35% of assets	n/a	50%	75%	The proposal maintained the approach in the current rule of assigning higher risk weights based on concentration of such loans held by an institution, but lowered the effective risk weight applicable to current first lien mortgages above the concentration threshold. As of June 30, 2013, 510 federally insured credit unions have a concentration of first mortgage real estate loans in excess of 25 percent of assets. See 79 FR 11197-11198 (Feb. 27, 2014).
Current 1st lien over 35% of assets	n/a	50%	100%	The proposal maintained the approach in the current rule of assigning higher risk weights based on concentration of such loans held by an institution, but lowered the effective risk weight applicable to current first lien mortgages above the concentration threshold. As of June 30, 2013, 160 federally insured credit unions have a concentration of first mortgage real estate loans in excess of 25 percent of assets. See 79 FR 11197-11198 (Feb. 27, 2014).
Junior lien and delinquent 1st lien 0% to 10% of assets	n/a	100%	100%	This proposed risk weight is consistent with the other federal banking regulatory agencies' capital rules (See 12 CFR 324.32), which maintained the 50-percent risk weight for one-to-four unit family real estate loans that are secured by a first lien, prudently underwritten, not 90 days or more past due, and not restructured or modified, and a 100 percent risk weight for such loans otherwise. See 78 FR 55339

[2] Includes all real estate loans (1st liens and junior liens) that will not contractually refinance, reprice, or mature in next five years.

Asset	Current Rule Inferred Risk Weight[1]	FDIC	Proposed Rule Risk Weight	Rationale
				(Sept. 10, 2013); and 79 FR 11197-11198 (Feb. 27, 2014).
Junior lien and delinquent 1st lien 10% to 20% of assets	n/a	100%	125%	The proposal maintained the approach in the current rule of assigning higher risk weights based on concentration of such loans held by an institution, but lowered the effective risk weight applicable to junior lien mortgages above the concentration threshold. As of June 30, 2013, 533 federally insured credit unions have a concentration of other real estate loans in excess of 10 percent of assets. See 79 FR 11197-11198 (Feb. 27, 2014).
Junior lien and delinquent 1st lien over 20% of assets	n/a	100%	150%	The proposal maintained the approach in the current rule of assigning higher risk weights based on concentration of such loans held by an institution, but lowered the effective risk weight applicable to junior lien mortgages above the concentration threshold. As of June 30, 2013, 160 federally insured credit unions have a concentration of other real estate loans in excess of 20 percent of assets. *See* 79 FR 11197-11198 (Feb. 27, 2014).
Member Business Loans				The proposal maintained concentration thresholds in the current rule. As of June 30, 2013, 70 federally insured credit unions held member business loan portfolios in excess of 15 percent of total assets. See 79 FR 11194 (Feb. 27, 2014).
MBLs 0% to 15% of assets	57%	100%	100%	This proposed risk weight is consistent with the other federal banking regulatory agencies' capital rules (See 12 CFR 324.32), which maintain a 10- percent risk weight for commercial real estate but includes a 150 percent risk weight for loans defined as high volatility commercial real estate. See 78 FR 55339 (Sept. 10, 2013); and 79 FR 11195-11197 (Feb. 27, 2014).
MBLs 15% to 25% of assets	76%	100%	150%	The proposal maintained the approach in the current rule of assigning higher risk weights based on concentration of such loans held by an institution, but increased the risk weight based on lessons learned from failed credit unions with high concentrations of commercial loans. See 79 FR 11195-11197 (Feb. 27, 2014).
MBLs > 25% of assets	133%	100%	200%	This proposed risk weight is based on supervisory experience, which has demonstrated that concentrations of member business loans present multiple risks for which credit unions should hold additional capital. Many of the largest losses to the National Credit Union Share Insurance Fund occurred in credit unions with high concentrations of member business loans.[3] The Government Accountability Office reported that in the 10 states with 10 or more bank failures between 2008 and 2011, the failure of the small and medium-size banks were largely associated with high concentrations of commercial real estate loans.[4] See 79 FR 11195-11197 (Feb. 27, 2014).

[3] NCUA Office of the Inspector General, OIG-10-20, OIG Capping Report on Material Loss Reviews (Nov. 23, 2010), Chart G, available at http://www.ncua.gov/about/Leadership/CO/OIG/Documents/OIG201020CappRpt.pdf.

[4] U.S. Government Accountability Office, GAO-13-704T, Causes and Consequences of Recent Community Bank Failures (June 12, 2013), page 4, available at http://www.gao.gov/assets/660/655193.pdf.

Loans guaranteed (≥ 75%) by SBA or other gov. agency	57% to 133%	20%	20%	This proposed risk weight is consistent with the other federal banking regulatory agencies' capital rules (See, 12 CFR 324.32), which maintained a 20-percent risk weight for exposures conditionally guaranteed by a U.S. Government agency. See 78 FR 55339 (Sept. 10, 2013); and 79 FR 11195-11196 & 11199 (Feb. 27, 2014).
Other Assets				
Loans to Credit Union Service Organizations	57%	100%	100%	NCUA proposed a risk weight for loans to credit union service organizations that is lower than for the equity investment in such entities because they have a higher payout priority in the event of liquidation. See 79 FR 11189, 11195 & 11198 (Feb. 27, 2014).
Investments in Credit Union Service Organizations	57%	Deduction from capital subject to limits or 100%-400%	250%	NCUA proposed this higher risk weight because these are an unsecured equity investment in the credit union service organization. Most credit union service organizations are not publicly traded. The other federal banking regulatory agencies' capital rules (See 12 CFR 324.32) apply a simple risk-weight approach to equity exposures of 250 percent for a significant investment in the capital of an unconsolidated financial institution that is not deducted under subpart C, section 22. Banking agency risk weights are 300 percent for a publicly traded equity exposure and 400 percent for a non-publicly traded exposure. See 79 FR 11189-11190, 11195 & 11200 (Feb. 27, 2014).
Mortgage servicing assets	57%	Deduction from capital subject to limits or 250%	250%	This proposed risk weight is consistent with the other federal banking regulatory agencies' capital rules (See 12 CFR 324.32), which assigns a 250-percent risk weight to the amount of mortgages servicing assets which are not deducted from capital. NCUA proposed this risk weight because mortgage servicing assets are complex investments with significant interest rate and market risk. Mortgage servicing assets can become impaired when interest rates fall and borrowers refinance or repay their mortgage loans. This impairment can lead to earnings volatility and erosion of capital. See 79 FR 11189, 11195 & 11198 (Feb. 27, 2014).
All other assets	57%	100%	100%	This proposed risk weight is consistent with the other federal banking regulatory agencies' capital rules (See 12 CFR 324.32), which maintain a 100-percent risk weight for other assets. See 79 FR 11195 & 11199 (Feb. 27, 2014).
Off-Balance Sheet Items				
Member business loans sold with recourse	57%		57%	The proposal maintained the risk weight in the current rule for MBLs sold with recourse. See 79 FR 11189, 11194, 11198 & 11200-11201 (Feb. 27, 2014).
1st mortgage real estate loans sold with recourse	57%		29%	Proposed reduction of the risk weight for first mortgage real estate loans sold with recourse consistent with lower risk weight for first mortgage real estate loans. See 79 FR 11189, 11194, 11198 & 11200-11201 (Feb. 27, 2014).
Other real estate loans sold with recourse	57%		57%	The proposal maintained the risk weight in the current rule for other real estate loans sold with recourse. See 79 FR 11189, 11194, 11198 & 11200-11201 (Feb. 27, 2014).
Student loans sold with recourse	57%		57%%	The proposal maintained the existing risk weight in the current rule for student loans sold with recourse. See 79 FR 11189, 11194, 11198 & 11200-11201 (Feb. 27, 2014).
All other loans sold with recourse	57%		56.25%	Proposal reduced the risk weight for all other loans (primarily consumer loans) with recourse consistent with the risk weight for consumer loans. See 79 FR 11189,

				11194, 11198 & 11200-11201 (Feb. 27, 2014).
Unused member business loan commitments	57%		57%	The proposal maintained the existing risk weight in the current rule for unused member business loan commitments. See 79 FR 11189, 11194, 11198 & 11200-11201 (Feb. 27, 2014).
Unfunded commitments for non-business loans	0%		7.5%	Proposal added this relatively small capital requirement in order to recognize the risk that a credit union with a substantial amount of unfunded loan commitments may unexpectedly be required to fund such obligations, creating a drain on liquidity and a shifting of assets which could cause a significant increase in the minimum capital requirement. This risk weight is consistent with Basel III risk weights for off-balance sheet item, paragraph 164. See 79 FR 11189, 11194, 11198 & 11200-11201 (Feb. 27, 2014).