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May 30, 2014

The Honorable Peter T. King
United States House of Representatives
339 Cannon House Office Building
Washington, D.C. 20515

The Honorable Gregory W. Meeks
United States House of Representatives
2234 Rayburn House Office Building
Washington, D.C. 20515

Dear Representatives King and Meeks:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only credit union trade association exclusively representing the interests of our nation's federal credit unions, I write in response to National Credit Union Administration (NCUA) Chairman Debbie Matz's letter to you earlier today. The letter continues the agency's effort to distort the devastating effect the proposed risk-based capital rule will have on our nation's credit unions and their 98 million members.

While the letter claims that the NCUA considered lessons learned from the recent financial crisis, the reality is that their proposal seems to ignore the fact that credit unions far outperformed other types of financial institutions in terms of the quality of their loans during the economic shocks of the crisis and continue to do so today. Instead, the NCUA proposal would put in place many stricter capital requirements for credit unions that go well beyond what is required for other financial institutions.

The NCUA claims that the proposed rule is "similar" to the risk-based capital rules for other U.S. financial institutions (such as the Basel accords), but the facts of the proposal don't back that up. The fact is that a number of the NCUA proposed risk-weights require credit unions to hold much more capital as compared with the FDIC and Basel III requirements for community banks — often without solid justification for the deviations that should have been provided with the proposal. We believe it is a stretch to call the risk-weights proposed for credit unions and those in place for community banks "similar" by any normal definition of the word.

In an effort to downplay the economic impact of the proposed rule, NCUA understates the true cost that the new capital requirements would have on credit unions in their letter. Chairman Matz notes that credit unions can comply with required level of capital by the business decisions that they make. What is not mentioned is that, under the risk-weights in their proposed rule, these "business decisions" would likely mean that credit unions would divest themselves of mortgage lending and small business loans—actions that would hinder the American economic recovery. Furthermore, with this mindset, NCUA fails to take into account the basic fact that capital levels of an institution can fluctuate. Most institutions need, and prefer, to have a capital cushion about the regulatory minimum needed to be well-capitalized—something NAFCU-member credit unions have told us that they will do.


While we applaud the agency for raising the need for supplemental capital and the NAFCU-backed *Capital Access for Small Businesses and Jobs Act*, H.R. 719, the fact is that changes beyond this are also needed.

The agency denied, without formal Board consideration, both industry and Congressional requests to extend the official comment period so more data could be gathered to comment on this rule. Instead, they will have three limited "listening sessions" that will not be part of the official record on this proposal. It is troubling that the NCUA did not see fit to include comments from these listening sessions into the record on this proposal. Furthermore, it is troubling that the agency is not doing a listening session in each of its five regions, meaning many credit unions would have to travel great distances, at some cost, to provide additional input.

NAFCU strongly believes that we need legislative changes for a fair risk-based capital system and has urged the NCUA to withdraw the rule. Should NCUA go forward with its rulemaking, we believe that the NCUA will need to make substantial reforms to their proposal. Such reforms, under the *Administrative Procedure Act*, should require the agency to withdraw the current proposal and reissue a new one, with a new comment period and timeline. We hope that this will be the agency's plan going forward and would urge Congress to hold them to that standard.

We thank you for your leadership on this matter. If I or my staff can be of assistance to you, please do not hesitate to contact myself or NAFCU's Vice President of Legislative Affairs, Brad Thaler, at (703) 842-2204.

Sincerely,



B. Dan Berger
President and CEO
National Association of Federal Credit Unions

cc: Members of the United States House of Representatives