Congress of the United States
Washington, DC 20515

May 15, 2014

The Honorable Debbie Matz
Chairman
National Credit Union Administration Board
1775 Duke Street
Alexandria, VA 22314

Dear Chairman Matz:

The proposal on risk-based capital issued by the National Credit Union Administration (NCUA) Board on January 23, 2014 raises several concerns that we feel must be addressed before the Board adopts the rule in final form.

We are writing to encourage the Board to make certain changes and clarifications to the proposal to ensure that the rule does not unduly burden credit unions, and does not adversely affect healthy credit unions' ability to meet the needs of their members.

Specifically, we encourage the Board to 1) take into account the cost and burden of implementing new risk-based capital requirements beyond the current leverage ratio; 2) provide justification and more clarity as to why the proposed risk weights differ from those applied to other community financial institutions; and 3) give credit unions more time than the proposal's allotted 18 months to come into compliance after it is finalized.

Economic Impact, Impact on Credit Union Members, and Compliance with Current Law

During the financial crisis, natural person credit unions served as an important source of liquidity in local communities and the overwhelming majority of them successfully weathered the downturn. These cooperatives did not engage in the risky lending practices that led up to the crisis and nearly all maintained their well-capitalized status. In spite of this, the NCUA's risk-based capital proposal imposes a higher risk-based requirement on top of the 7% leverage ratio credit unions are required to maintain to be considered well-capitalized. Since credit unions have limited ability to raise capital other than retained earnings, and the crisis did not provide evidence for greater capital reserves for natural person credit unions, this across-the-board approach seems burdensome and raises concerns.

As you know, the proposal includes a description of the impact that the Board believes the rule would have on credit unions. It notes that the 10 credit unions that would

become undercapitalized as a result of this proposal would need to retain $63 million in risk-based capital in order to be considered adequately capitalized. However, industry representatives estimate that the collective impact of this proposal on all of the credit unions subject to it could be as high as $7 billion of capital drawn out of the economy. Because of credit unions' limited avenues for raising capital, it is likely this proposal would force them to charge higher lending and financial services fees, reduce dividend payments to members, and deter new depositors. Before proceeding with a final rule, we urge the NCUA to consider the economic impact and consequences of reduced liquidity and financing for families and small businesses.

Risk-Weight Calibration

In your proposal, the risk weightings include concentration-based weights which, at the higher levels, would be considerably higher than those applied under the Basel system for banks. Although we appreciate the importance of supervising financial institutions for concentration risk, we believe that this proposal merits further review. We would therefore appreciate the Board's perspective on how these proposed concentration-based risk-weights were calibrated, why they differ from bank risk-weights, and how they might affect mortgage and small business credit availability. We are concerned this portion of the proposal could unnecessarily hinder credit union lending to homeowners and small businesses.

Compliance Timeline

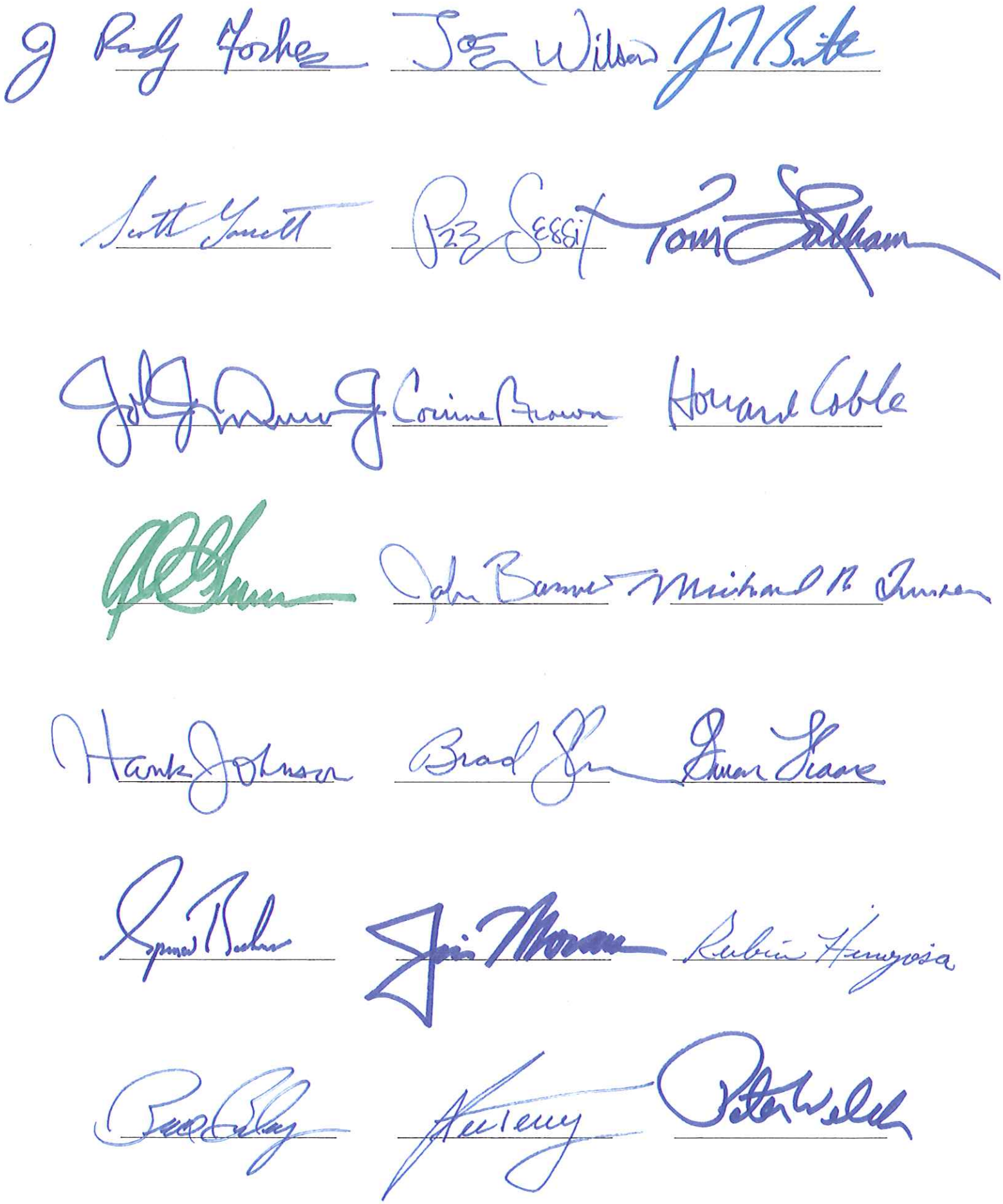
Finally, we have concerns regarding the implementation period proposed by the Board. The Board seeks to implement the proposed rule 18 months after it has been finalized. The *Federal Credit Union Act* significantly constrains both credit unions' investment authority as well as their ability to raise capital from sources other than retained earnings. We are concerned that the amount of time the Board has proposed is much too short for credit unions to appropriately recalibrate their books without adversely impacting their service to their members. We strongly urge NCUA to give the stakeholders more time to comment on this proposal and credit unions more time to implement the final rule.

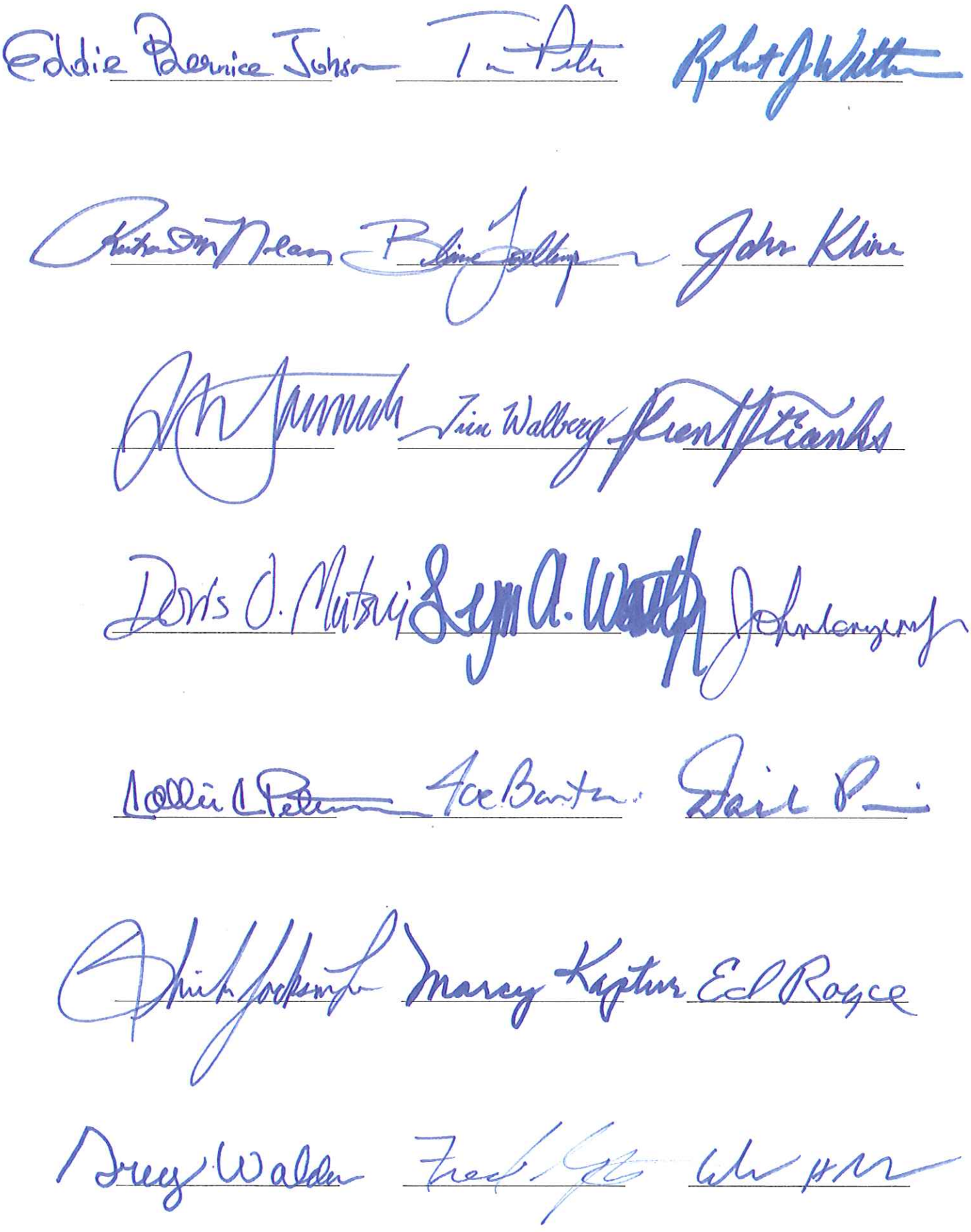
Applying risk-based weighting certainly has value, and we appreciate the NCUA for taking on this task. Thank you for taking our comments into consideration, and we look forward to your timely response to our concerns.

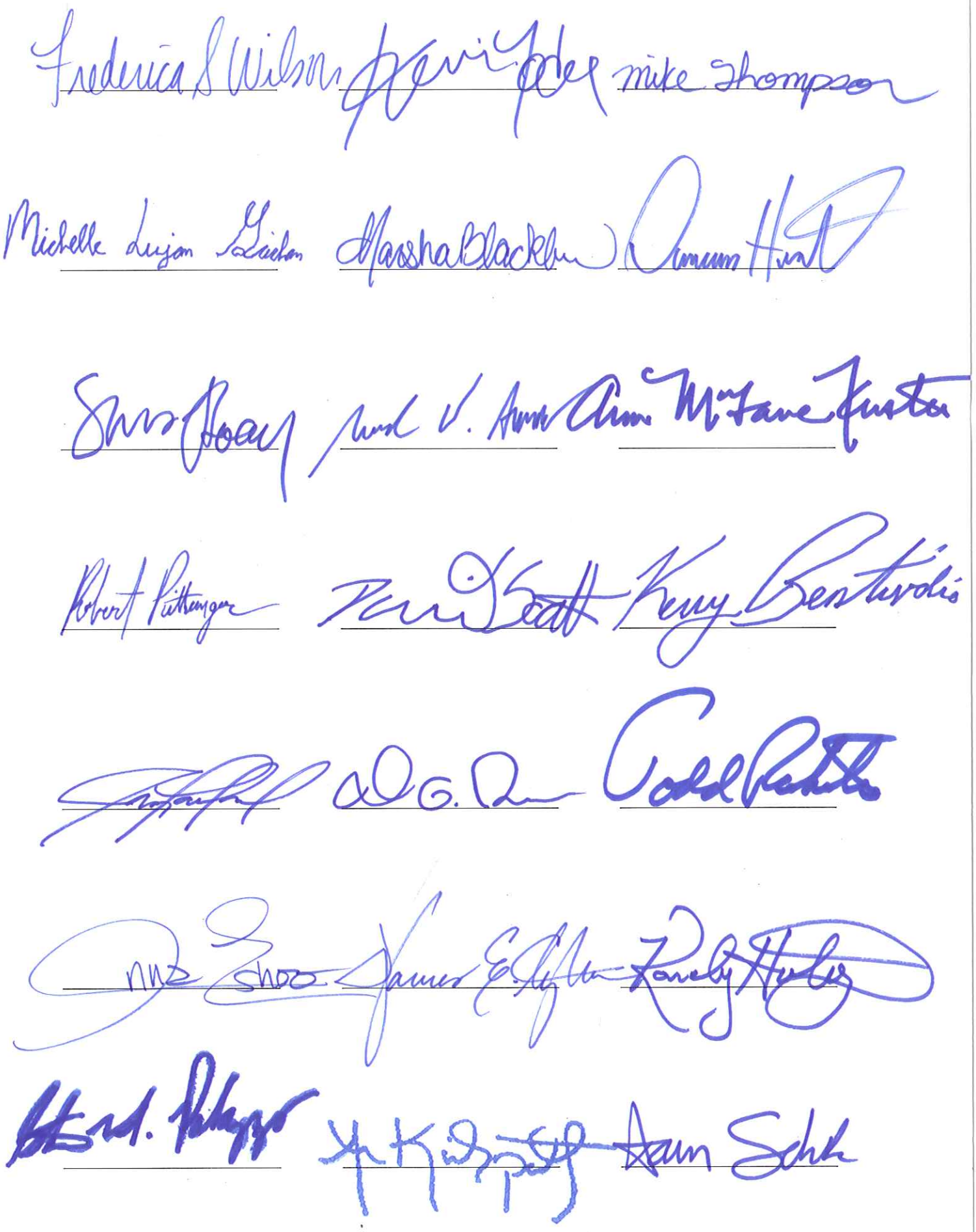
Sincerely,

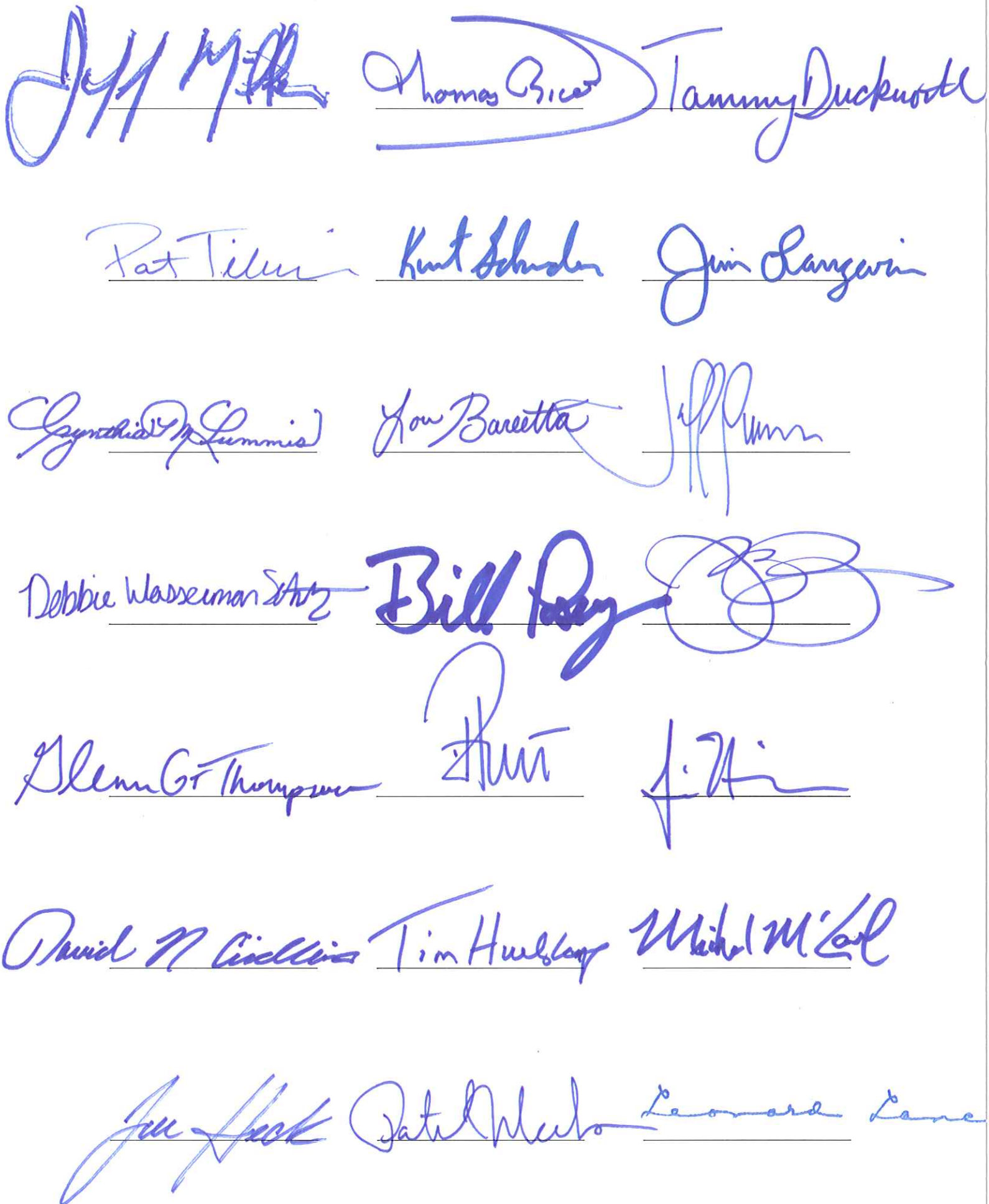
PETER T. KING
Member of Congress

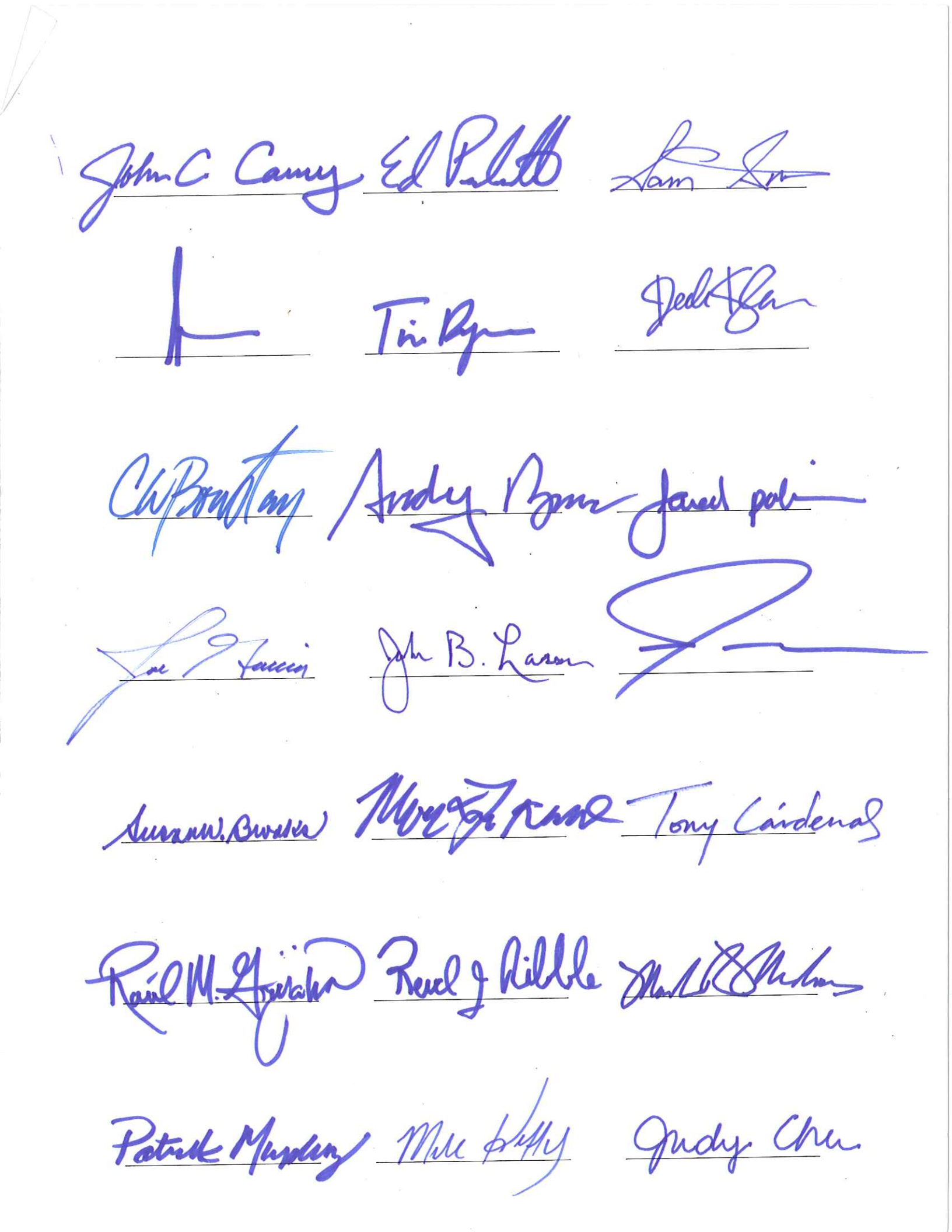
GREGORY W. MEEKS
Member of Congress

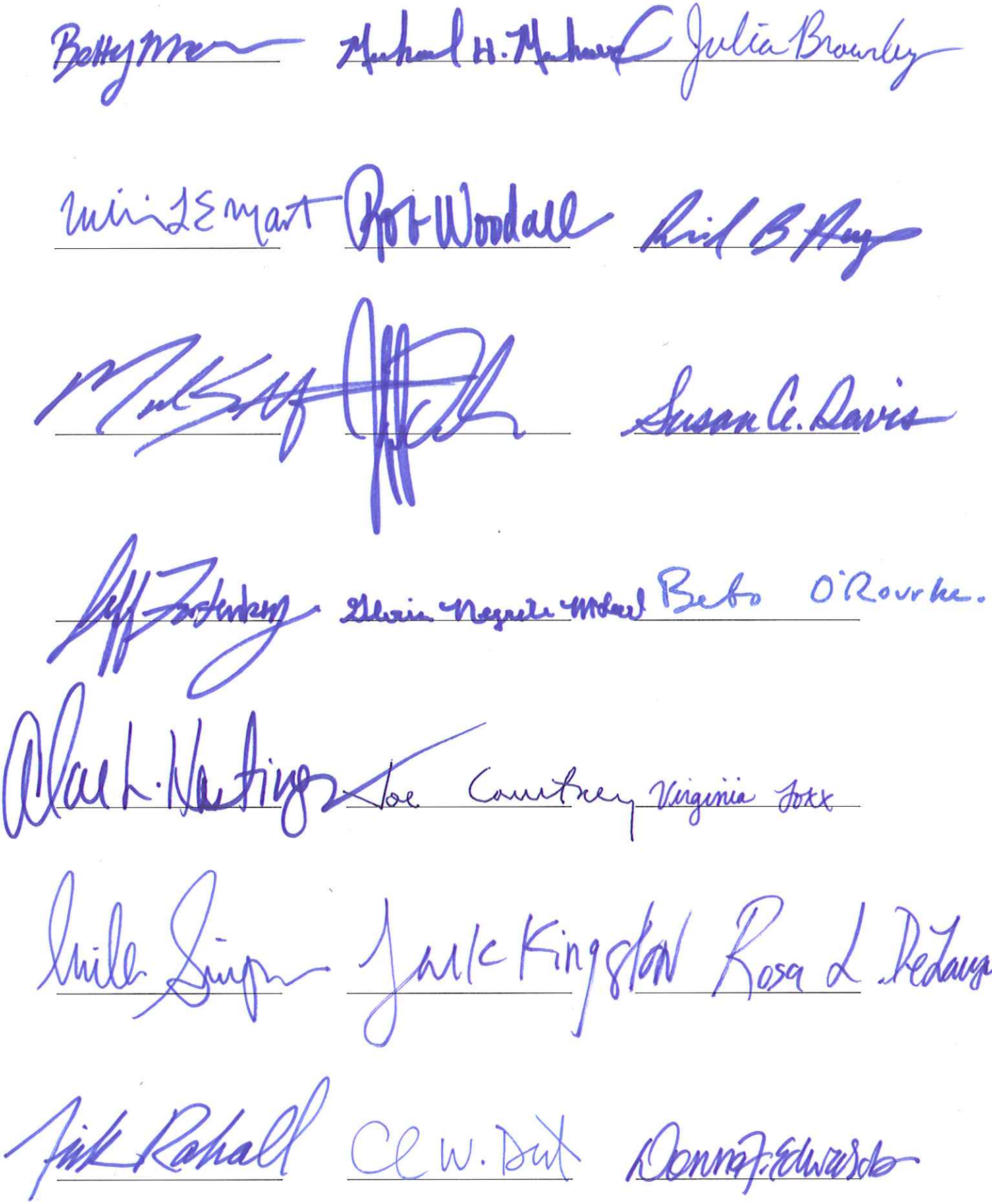


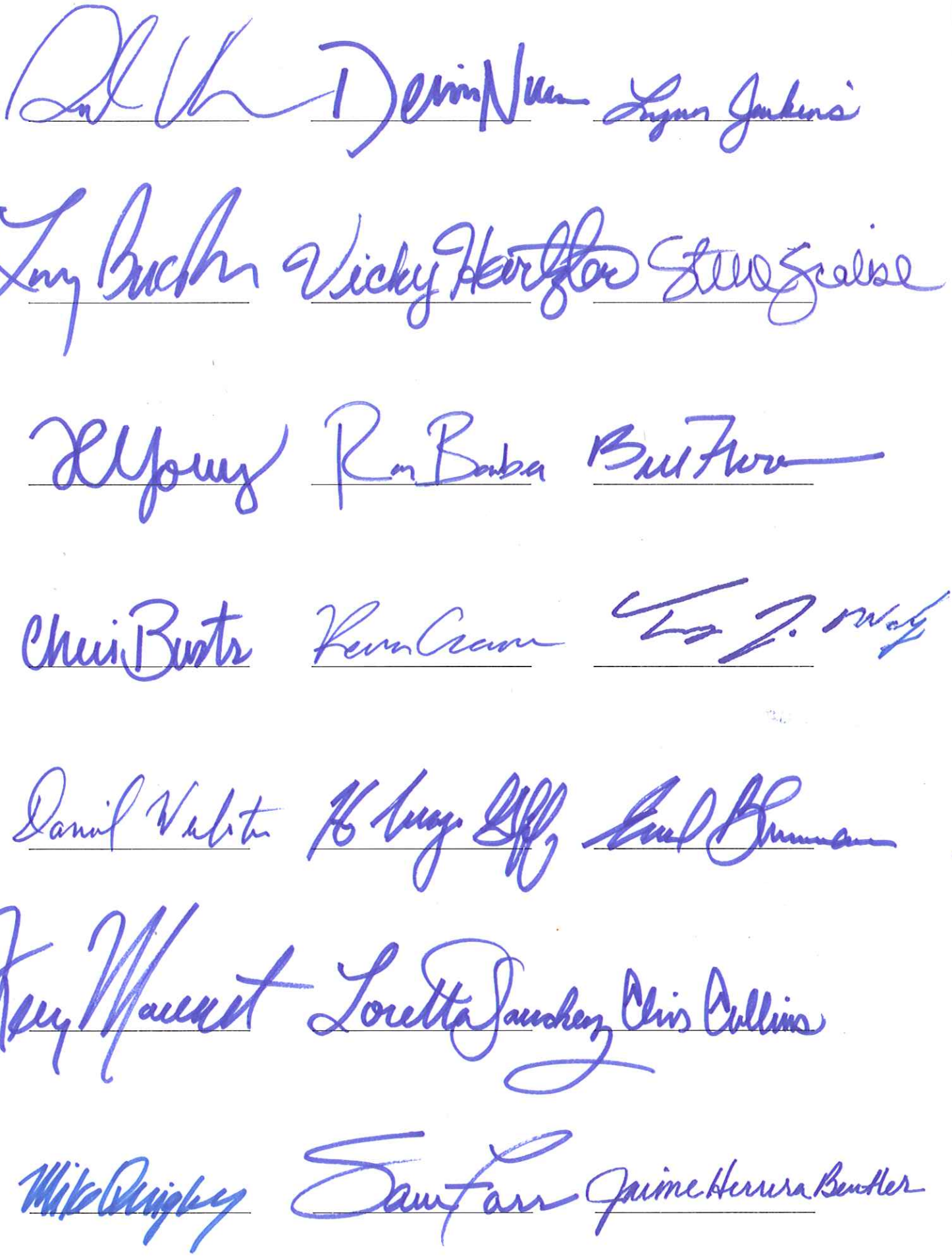


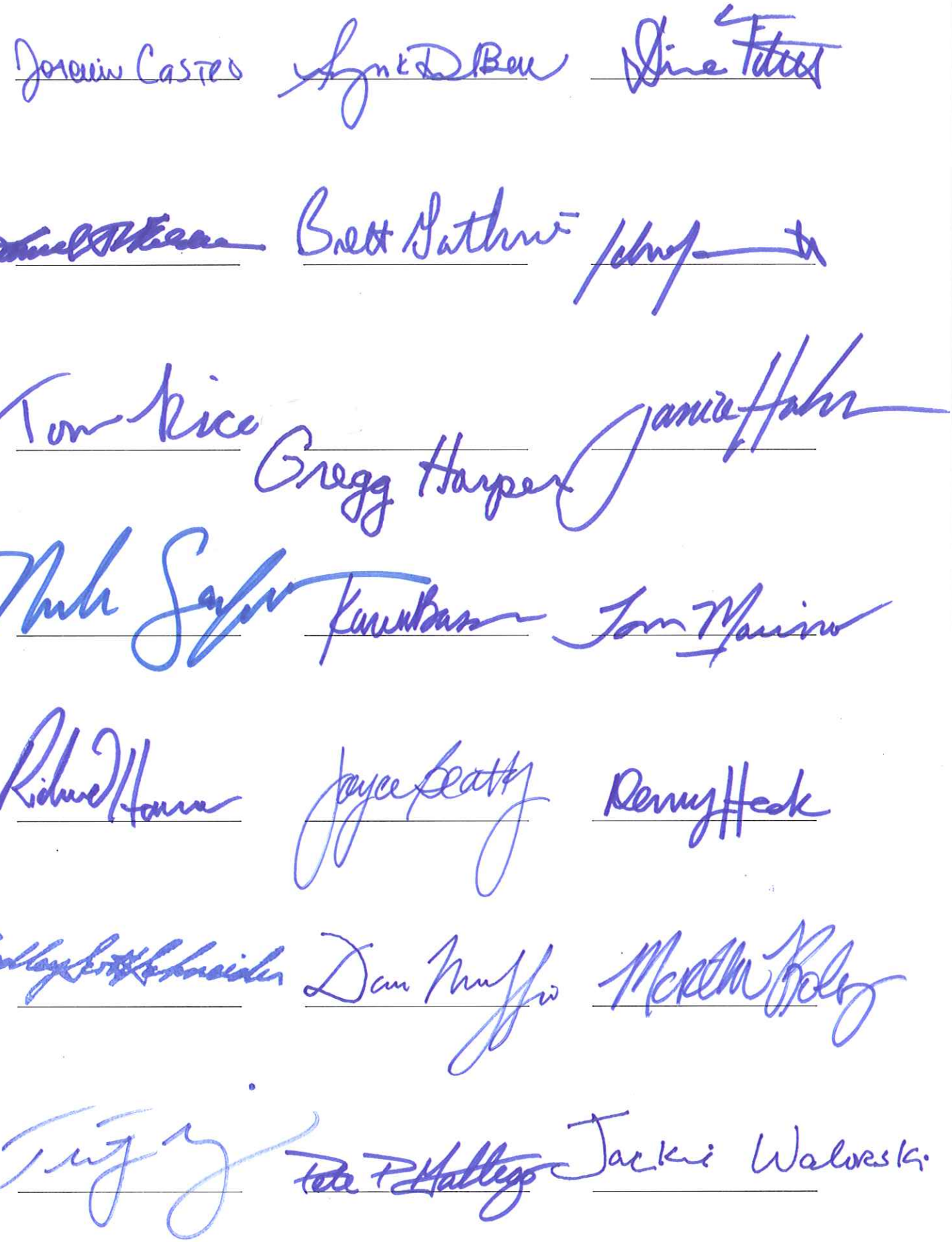


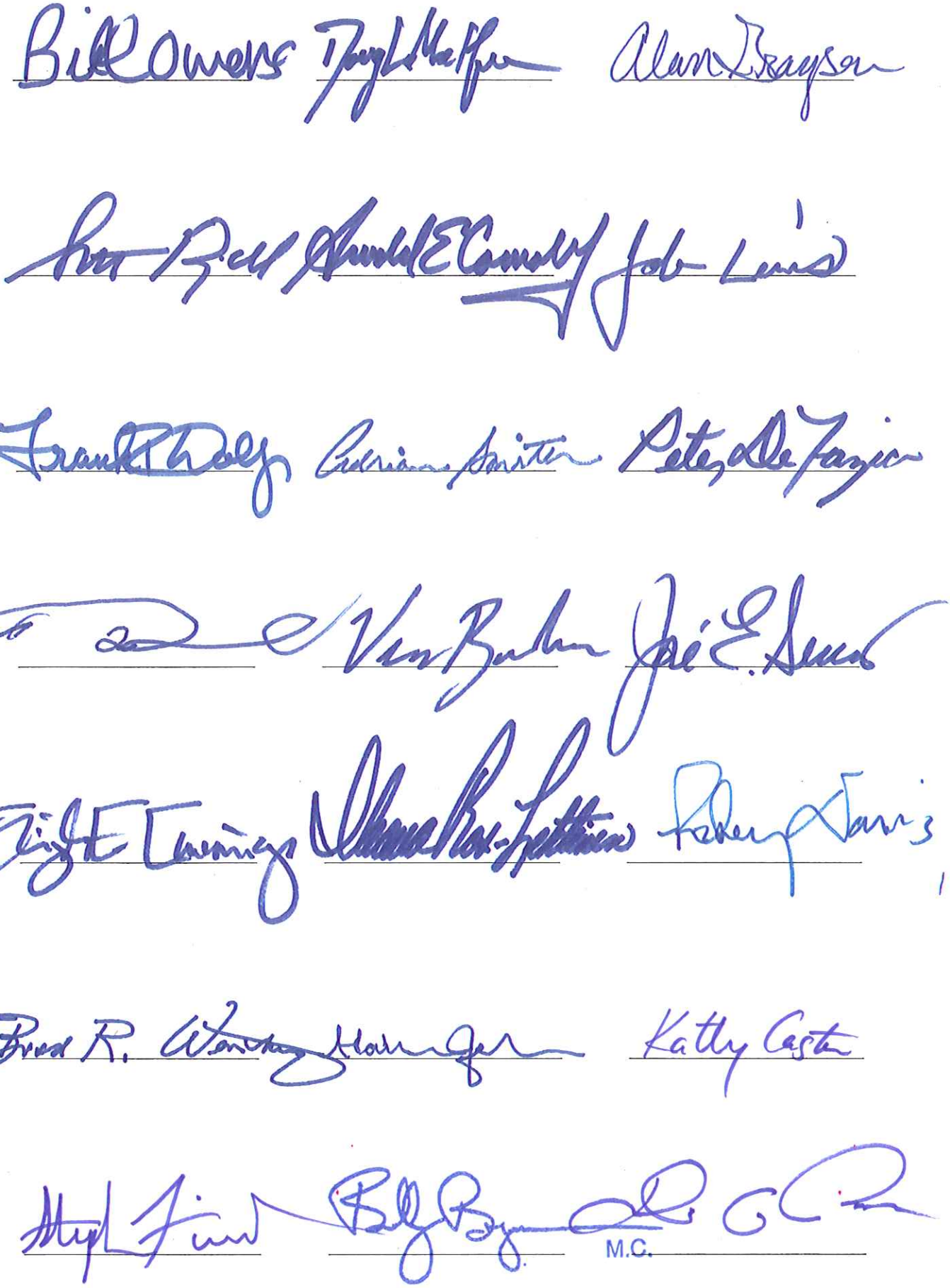








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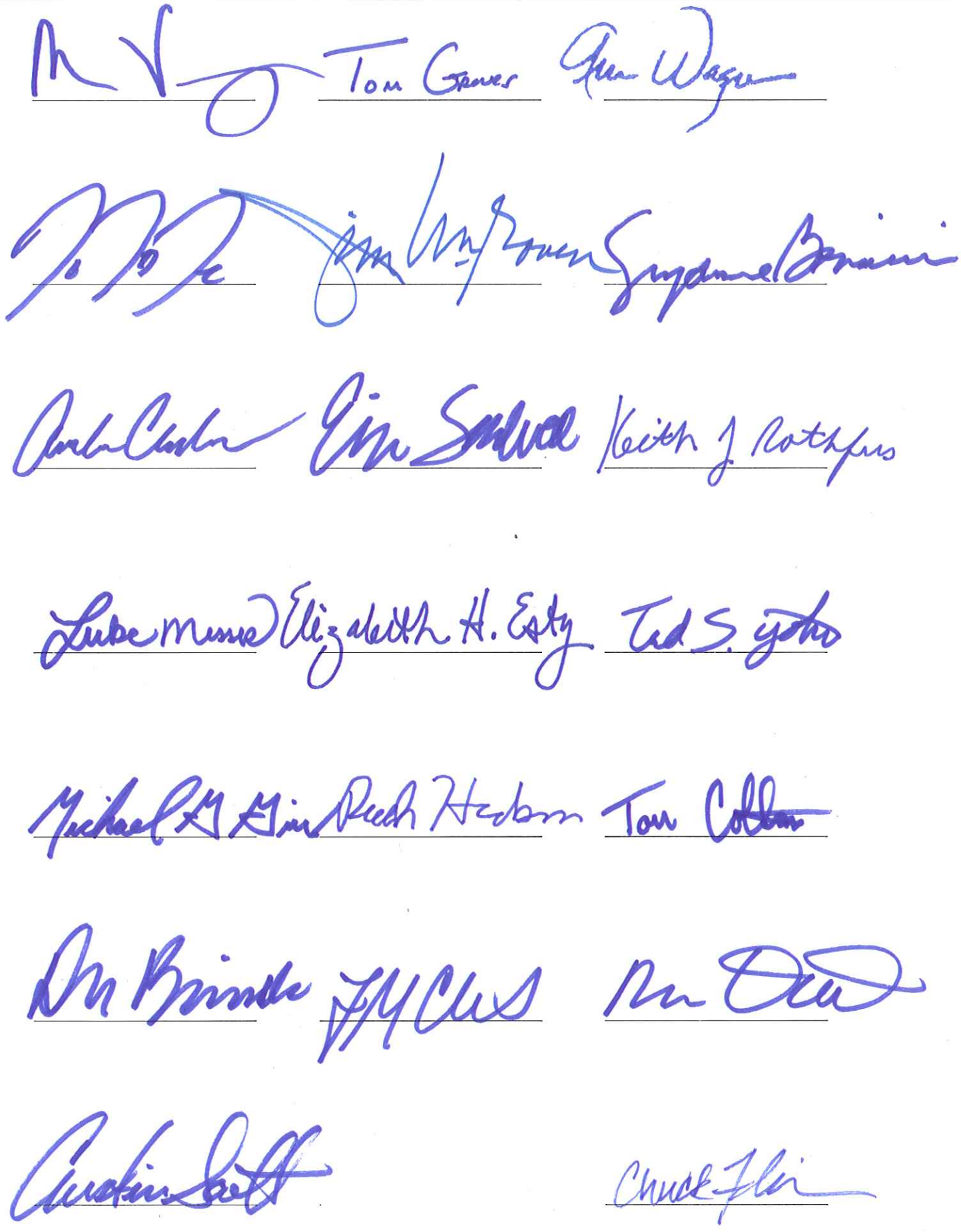
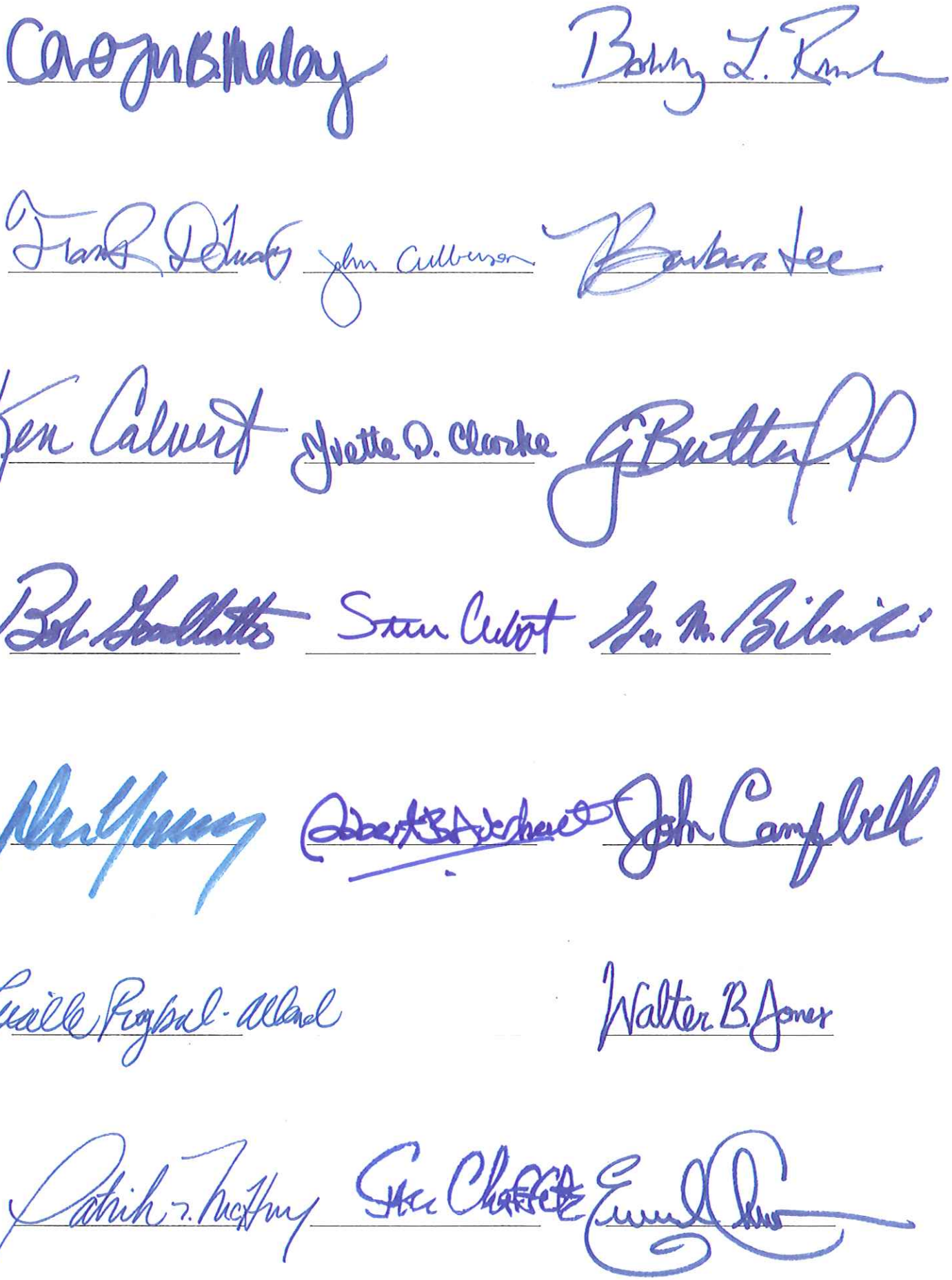
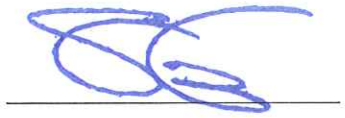
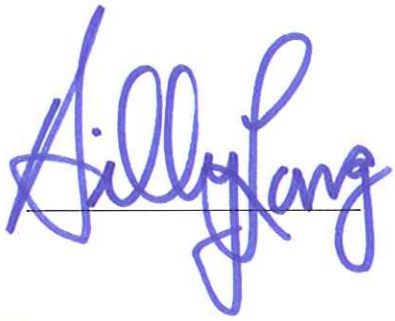


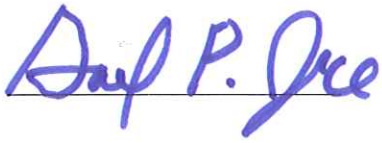


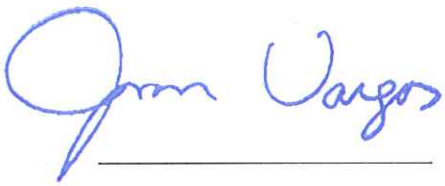


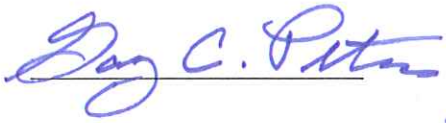
Carol Shea-Porter

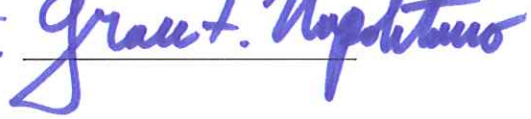
Diane Black

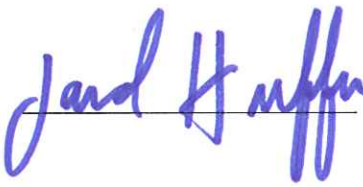


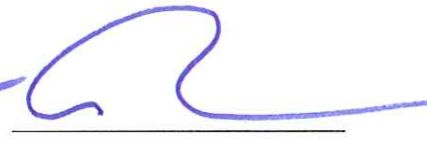


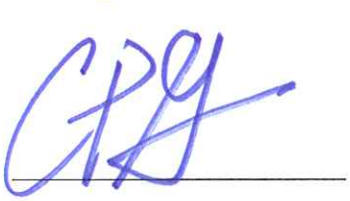


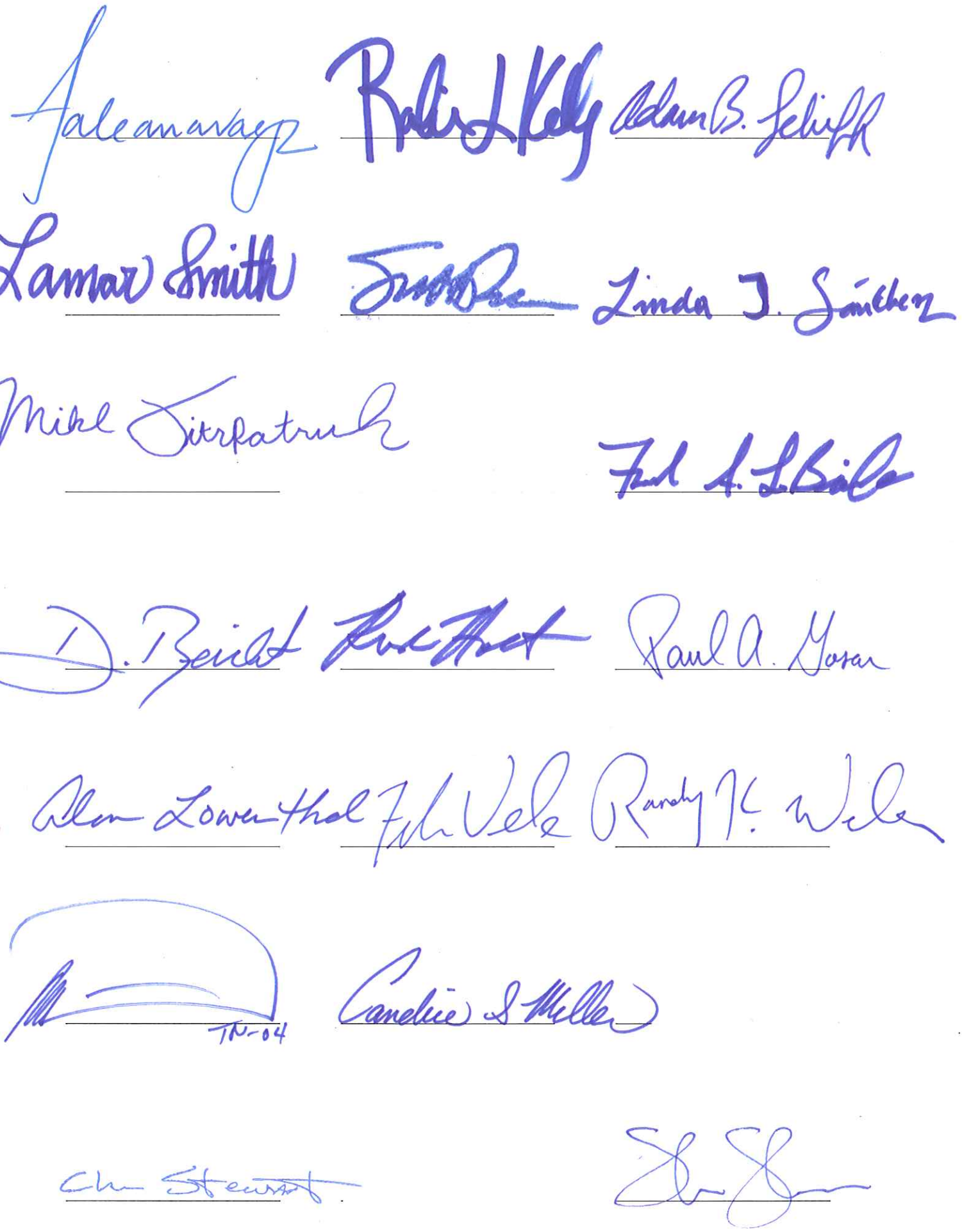












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