



Credit Union National Association

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March 26, 2007

Office of the Comptroller of the Currency  
250 E Street, SW  
Mail Stop 1-5  
Washington, DC 20219  
Attention: Docket Number 06-15  
[regs.comments@occ.treas.gov](mailto:regs.comments@occ.treas.gov)

Jennifer J. Johnson, Secretary  
Board of Governors of the  
Federal Reserve System  
20th Street and Constitution Avenue, NW  
Washington, DC 20551  
Attention: Docket Number R-1238  
[regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

Robert E. Feldman, Executive Secretary  
Federal Deposit Insurance Corporation  
550 17th Street, NW  
Washington, DC 20429  
Attention: Comments/Legal ESS  
[comments@fdic.gov](mailto:comments@fdic.gov)

Regulation Comments  
Chief Counsel's Office  
Office of Thrift Supervision  
1700 G Street, NW  
Washington, DC 20552  
Attention: No. 2006-49  
[regs.comments@ots.treas.gov](mailto:regs.comments@ots.treas.gov)

Re: Risk-Based Capital Guidelines; Capital Adequacy Guidelines; Capital Maintenance:  
Domestic Capital Modifications, [71 FR 77446-518](#)

To Whom It May Concern:

The Credit Union National Association (CUNA) appreciates the opportunity to comment on the notice of proposed rulemaking (NPR) issued jointly by the banking regulators regarding new Basel IA standards. CUNA represents approximately 90 percent of our nation's 8,700 federal and state-chartered credit unions, which serve nearly 87 million consumers.

Credit unions are not currently subject to the Basel-type capital requirements that other federally insured institutions are. However, legislation has been introduced in Congress (the 2007 Credit Union Regulatory Improvements Act, H.R. 1537) that would replace the current credit union prompt corrective action (PCA) system with risk-based capital requirements that must take into account all material risks that are factored into bank risk-based capital standards. Thus, upon passage, although the National Credit Union Administration (NCUA) would not be required to apply the same system in place for banks, NCUA will be guided by the Basel IA standards then in effect. In that context, CUNA provides the following comments on several issues raised in the NPR.

- **Simplicity vs precision in risk evaluation.** The vast majority of credit unions operate with uncomplicated balance sheets and with net worth levels well in



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excess of those that would be required under Basel IA. It is our understanding that some smaller banks have balance sheets that are similarly uncomplicated. To address this, we support allowing institutions to choose between the current Basel I standard and the standard under the new Basel IA that are very similar to those contained in the NPR. However, institutions should also be permitted, at their option, to apply more sophisticated and more precise risk-measurements to various classes of assets (as discussed below.) Institutions should be permitted to choose one of the standard or more precise methods on an asset-class-by-asset-class basis.

- **Improved risk evaluation of residential mortgage loans.** We believe that institutions should, at their option, be able to apply lower risk weights to residential mortgage loans than those suggested in the NPR based on factors determined by the agencies taking into account credit scores of borrowers and/or the seasoning of loans.
- **Improved risk evaluation of consumer loans.** CUNA is particularly concerned that all non-mortgage consumer loans not be assigned a risk weight of 100%. We are confident that well-secured and underwritten loans to borrowers with high credit scores impose less risk than securities with the lowest investment grade. Therefore, we encourage the agencies to permit institutions, at their option, to apply risk weights lower than 100% to consumer credits based on factors determined by the agencies taking into account credit scores of borrowers and loan-to-values (LTVs) of secured loans. For example, secured consumer loans made to borrowers with the highest credit ratings might be assigned a risk weight of 50%. The 75% risk weight could be applied to consumer loans that are fully secured to borrowers of the second highest credit score category, or unsecured loans to borrowers with the highest credit scores.
- **Improved risk evaluation of small business loans.** CUNA likewise believes that well-secured and underwritten loans to small businesses impose less risk than securities with the lowest investment grade. We encourage the agencies to permit institutions, at their option, to apply a 75% risk weight to certain small business loans that meet requirements established by the agencies.
- **Improved risk evaluation of business loans secured by non-residential real estate.** CUNA encourages the agencies to permit institutions, at their option, to apply lower risk weights to loans secured by non-residential real estate based on factors determined by the agencies taking into account such factors as loan to value ratios.

Thank you for the opportunity to express our views on this very important proposal. We applaud the agencies for seeking ways to address risk-sensitivity in the capital structure of non-Basel II banks and thrifts, and believe similar flexibility under risk-weighted benchmarks for credit unions is appropriate as well.

Sincerely,



William F. Hampel  
Chief Economist & Senior Vice President of Research and Policy Analysis