



May 24, 2007

Robert E. Feldman, Executive Secretary  
Attention: Comments  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, NW  
Washington, DC 20429

RE: Comments on Proposed Basel II Supervisory Guidance

Dear Mr. Feldman:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions (FCUs), I am responding to the request for public comment on the proposed supervisory guidance for Basel II. Although, at this time, we are not providing any specific comments on the proposal, NAFCU would like to take this opportunity to inform you of our current position regarding risk-based capital in general.

The case for a risk-based capital framework for financial institutions is not new. The present Basel framework was first implemented in 1998 and most financial institutions currently operate under that capital framework. Presently, regulators around the world are placing the final modifications on the evolution of the current capital framework in the form of Basel IA and Basel II. Neither corporate, nor natural-person FCUs, however, currently operate under a risk-based capital framework. In 2006, the National Credit Union Administration (NCUA) suggested a legislative proposal that would permit a risk-based capital regime for federally insured credit unions based on the tenets of Basel and Basel IA. NAFCU supports this effort and believes a risk-based capital framework is appropriate for FCUs. Legislation is in place to permit a risk-based capital regime for corporate credit unions. At this juncture, however, such has not been proposed by NCUA.

NAFCU endorses risk-based capital standards for both natural person and corporate FCUs that are progressive in nature, consistent with the fundamental principles of the Basel Accords, and comparable with the risk-based capital measures used by the other depository institutions. NAFCU further believes that the principles listed below are fundamental to the



Mr. Robert E. Feldman

May 29, 2007

Page 2 of 2

endorsement of any risk-based capital structure for the credit union community and that the risk-based capital requirements must maintain the integrity of the principles outlined below:

- Capital should be held by depository institutions as a cushion against unexpected losses, whether these losses were caused by credit-related, market-related, or operational factors.
- Capital requirements must be consistent with the capital requirements of other financial services institutions as envisioned by the Basel Accords.
- Capital requirements must be related to the level of risk within each individual asset portfolio. The risk-based capital requirements must allow the flexibility to adapt to increasingly innovative and complex financial instruments and transactions.
- Capital requirements must provide proper management incentives such that moral hazard concerns are minimized and risk-reducing activities are encouraged.

NAFCU believes that both the current Basel I and the proposed Basel IA capital frameworks meet the aforementioned principles.

NAFCU supports the option for most financial institutions to choose either the present Basel I capital framework or proposed Basel IA framework. This is very important as FCUs differ significantly in size, complexity and balance sheet makeup. Further, NAFCU supports the creation of the Basel II capital framework for the large, internationally active financial institutions.

NAFCU appreciates the opportunity to provide these general comments on the Basel framework. Should you have any questions or require additional information, please call me at (703) 522-4770, extension 232, or Dr. Tun Wai, NAFCU Chief Economist, at extension 232.

Sincerely,



Fred R. Becker, Jr.  
President/CEO

FRB/jt/py

