



Risk-Based Capital: The Second Coming

Chip Filson, *Chairman*

Andrew Bolton, *Senior Industry Analyst*



MAY 12-13, 2015

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Agenda

1. Brief Overview of Updated Proposal and Changes
2. Assessment of Risk-Based Capital Proposal 2 with Douglas Alldredge – CFO of First Credit Union (\$408M, Chandler, AZ)
3. What will be the impact of the rule?
4. An assessment of Proposal 2
5. Dialogue with presenters, and attendees' questions

Webinar's Purpose

1. Provide summary overview and analysis to help you understand the proposal's impact.
2. Encourage your comments during the next 90 days: **More important than ever!**

Updated Risk-Based Capital Proposal In Brief

- 450-page proposal issued by NCUA board at January 15, 2015, meeting in a 2-1 vote with Board Member McWatters opposed
- 90-day comment period starts after publication in Federal Register, likely ending in late April.
- Applies to credit unions > \$100 million in assets
- Goal: make credit union rules consistent with OCC, FDIC, Fed, and corporate capital requirements
- Effective date: January 1, 2019

Replaces previous proposal of risk-based capital ratio issued in January 2014.



National Association
of Federal Credit Unions

[RBC2 out for comment, NAFCU still has concerns](#)

The NCUA Board on Thursday released for a 90-day comment period its revised risk-based capital proposal, but NAFCU maintains the proposal still would be too costly for credit unions and could threaten some institutions.

**RBC2 improves: Still solution in search of
problem, CUNA says**



**CREDIT UNION
JOURNAL**

COMPLIANCE

How NCUA Softened Its Risk-Based
Capital Plan

CreditUnionTimes

**Individual Capital Requirement Still
a Concern: Onsite Coverage**



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The Complexity Of The RBC #2 Proposal

- 76 total variables to calculate RBC (up from 45)
 - Investments: 24 variables, up from 7
- More than 20 changes in weightings from original proposal
- Call Report will undergo massive changes to collect necessary data — not ready till 2018?

New Issue Raised at NCUA Board Level: The Authority For A Two-Tier RBC Structure.

Excerpts From McWatters Dissent:

- “The board may not seek to piggyback the FDIC’s RBNW rules by ignoring the statutory provisions specifically prescribed by Congress for credit unions.”
- “Based upon my 30-plus years of experience as an attorney who has worked on many intricate issues of statutory and regulatory interpretation, I am of the view that NCUA does not possess the legal authority under the FCUA to adopt a two-tier RBNW regulatory standard.”
- “NCUA staff did not undertake a formal estimate of the recurring compliance costs of the proposed regulations. I anticipate that some, if not many, credit unions may argue that these projections materially underestimate the actual cost of complying with the proposed RBNW regulations. Regrettably, this additional burden falls on a financial services sector that is not too-big-to-fail and was in no manner responsible for the recent financial crisis.”

Assessment of Risk-Based Capital Proposal 2: The Good, The Bad, And The Ugly

Douglas Alldredge

CFO, First Credit Union

Headquarters: Chandler, AZ

Total Assets: \$408M

Net Worth Ratio: 8.8%

ROA: 0.50%

Data as of September 30, 2014

Douglas Alldredge

Douglas.Alldredge@firstcu.net

CFO of First Credit Union (\$408M, Chandler, AZ) since 2010
Master of Accountancy degree

Work Experience:

- CFO for Valley Capital Bank (09/07 – 09/10)
- CFO for Valley Commerce Bank (12/96 – 4/05)
- Regulatory reporting manager for \$55 billion bank holding company with oversight for monthly risk-based capital calculations for 14 banks in the group
- Controller for a community bank
- 1988: Began work at KPMG same year as first Basel accord — received detailed training on risk-based capital for banks

Overall Assessment

- Current RBNW has little value
- RBC concept is unproven
 - Risk weights are arbitrary
- NCUA feels it has been directed/compelled to adopt a RBC framework
- Without system intervention, NCUA will move forward

The Summary Impact — NCUA Assertions

- Complex credit unions falling under RBC rule:
 - Proposal 2's \$100 million asset level would cover 1,455 credit unions, or only 22% of all credit unions
 - 782 fewer credit unions than Proposal 1's \$50 million level of total assets
 - Would cover 89% of system assets
 - 78% of all FICUs would be exempt vs. 66% under Proposal 1
- Estimated average RBC ratio:
 - Under Proposal 2 at 19.3%, almost double the required 10.0%
 - Under Proposal 1 at 15.7%, about 50% above the required 10.5%
- Credit unions falling below “well capitalized” due to RBC proposal?
 - Proposal 2 = 19
 - Proposal 1 = 199
- Aggregate capital needed for credit unions affected by RBC rule:
 - Proposal 2 = \$50 million
 - Proposal 1 = \$700 million

Risk-Based Capital Proposal 2: *The Good, The Bad, And The Ugly*

- Proposal 2 is vastly improved over Proposal 1
 - Improved structure
 - More favorable to credit unions
 - Made corrections to most significant deficiencies
 - More livable
 - Removes the most egregious competitive disadvantages of Proposal 1 as compared with banks' RBC model
- Credit union and industry leaders made a difference
- Some concerns remain, input needed

The Good

1. Applies to credit unions with \$100 million in total assets or greater (up from \$50 million)
2. Eliminated interest rate risk from the proposal, lowering many key risk weights
3. Reduced the “well capitalized” RBC level to 10.0%, down from 10.5%
4. All of the ALLL will be added to RBC numerator; no cap versus capped at 1.25%
5. Moved the effective date to 1/1/2019, instead of 18 months following rule finalization
6. Higher risk weights for certain loan concentrations remain, but thresholds were raised
7. Individual Minimum Capital Requirement (ICMR) has been removed
8. 1250% risk weight for certain investments defined much tighter
9. Goodwill carve-out/grandfathering

The Bad

1. NCUSIF deposit still deducted from RBC numerator
2. No supplemental capital
3. Non-grandfathered goodwill still excluded from RBC numerator
4. Call Report expanded, adding to reporting burden
5. Higher risk weights remain for concentrations of some loan types
6. Higher risk weights remain for non-current loans
7. Some areas of competitive disadvantage compared to banks remain

The Ugly

1. NCUA looking for a separate approach to IRR outside of RBC
2. Consideration of NEV as IRR tool
3. RBC required ratios are considered “minimum standards”
4. Requires comprehensive, written capital plan to determine cushion above “minimum standards”
5. Apparent direction toward ERM (Enterprise Risk Management), to include IRR and other risks
6. NCUA board may reclassify a credit union’s capital category

NCUA Seeks Our Help

- To define “complex” for purposes of which credit unions are subject to RBC
- Supplemental forms of capital
- Why apply lower risk weights to investments that fund employee benefit plans
- Other areas

Game Plan

1. Study the revised proposal and understand the issues
2. Industry-wide effort needed
3. Even if less than \$100 million now, will impact you in the future
4. Write comment letters
5. Move the bad and the ugly in the right direction
6. Comment on those issues that have the most impact to your institution
7. Redirection away from RBC approach likely only through:
 - a. Congressional action
 - b. Legal challenge

What will be the impact of the rule on the credit union system?

90% Of System Will Be Directly Impacted By January 2019

- 1,481 federally insured credit unions over \$100 million as of 9/30/2014
- Nearly \$1 trillion in assets and 83.7 million members impacted by proposal
- Based on recent growth trends, an additional 160+ credit unions will be over \$100 million as of 1/1/2019, and nearly 100 more will be between \$90M and \$100M
- 17 credit unions only would have a RBC ratio under 10% based on 9/30/14 data

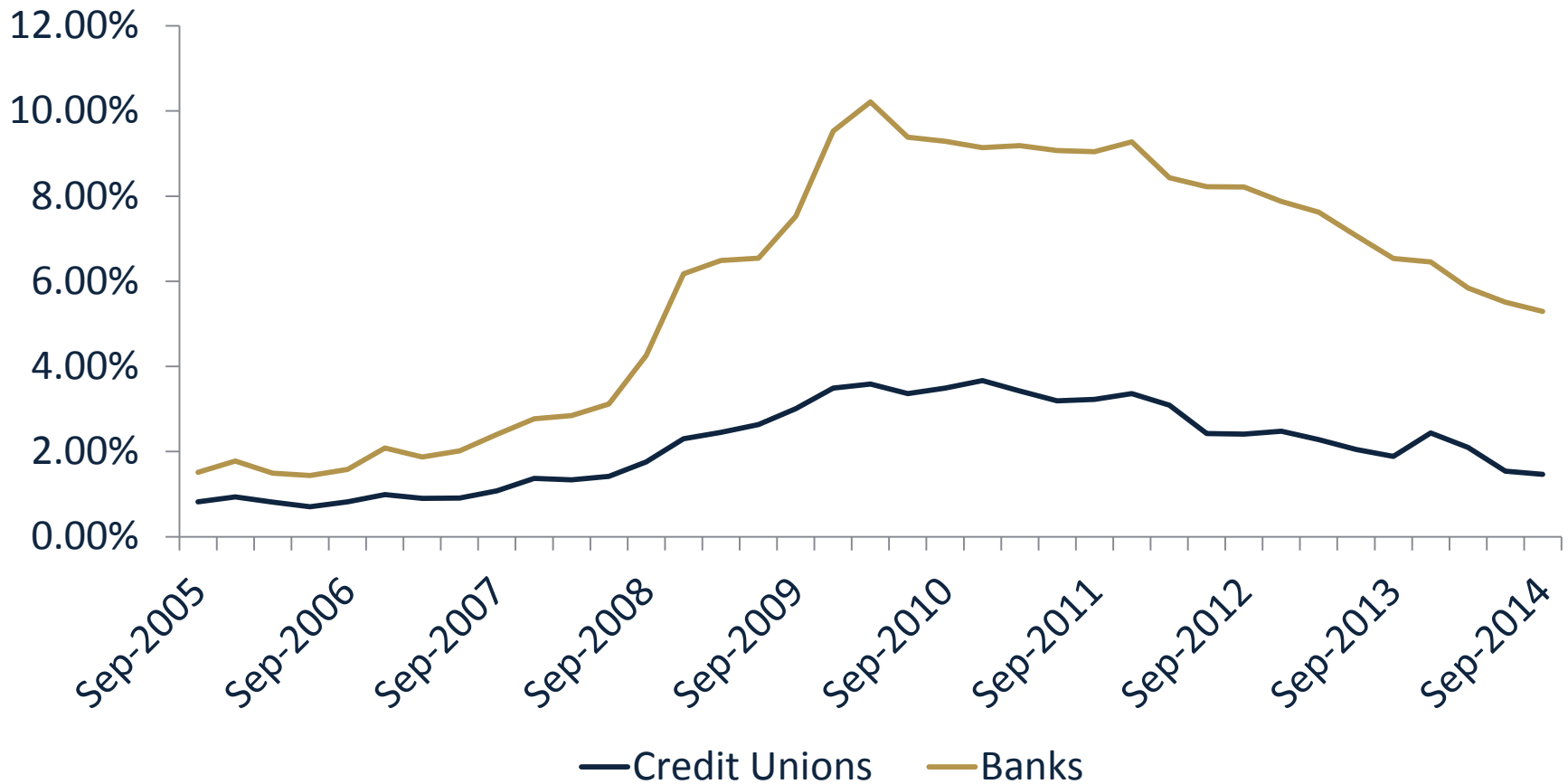
Risk Weights Imply Capital Many Multiples Of Actual Credit Losses

	Credit Union Losses Per \$1 Outstanding	Risk-Weight Reservation under 10% RBC
1-4 Family Residential	\$0.001	\$0.05 (50X)
Other RE/HELOCs	\$0.003	\$0.10 (30X)
Credit Cards	\$0.018	\$0.10 (5X)
Auto	\$0.005	\$0.075 (15X)

Same Weights As Banks For Different Performance

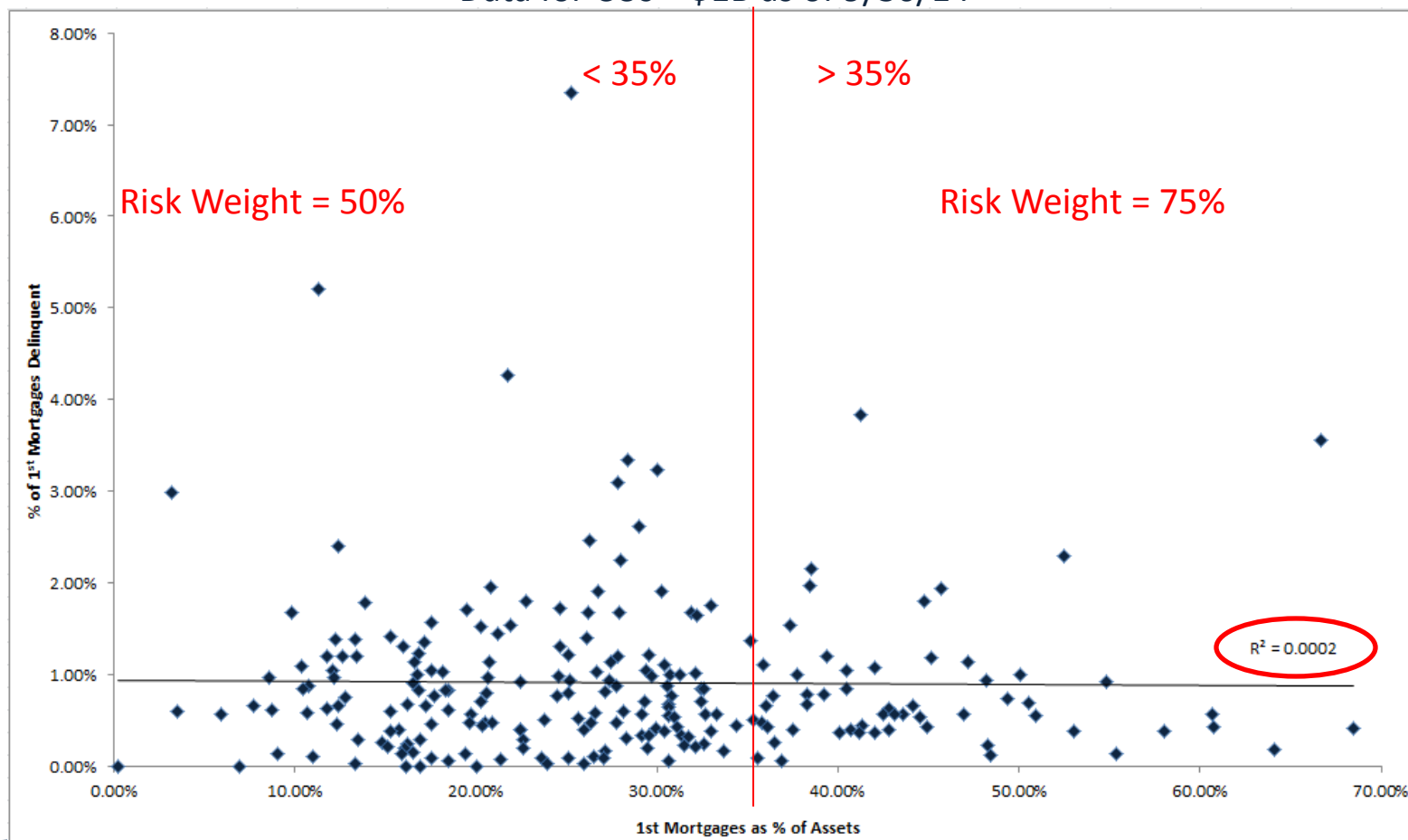
	CU Delinquency (> 60 Days)	Bank Delinquency (> 90 Days)	CU Risk Weights vs. Bank Risk Weights
1-4 Family Residential	0.96%	5.23%	Same or Higher
Other RE/HELOCs	0.86%	2.62%	Same or Higher
Credit Cards	0.89%	1.10%	Same
Auto	0.60%	0.27%	Lower

First Mortgage Losses Historically Lower At Credit Unions Than At Banks



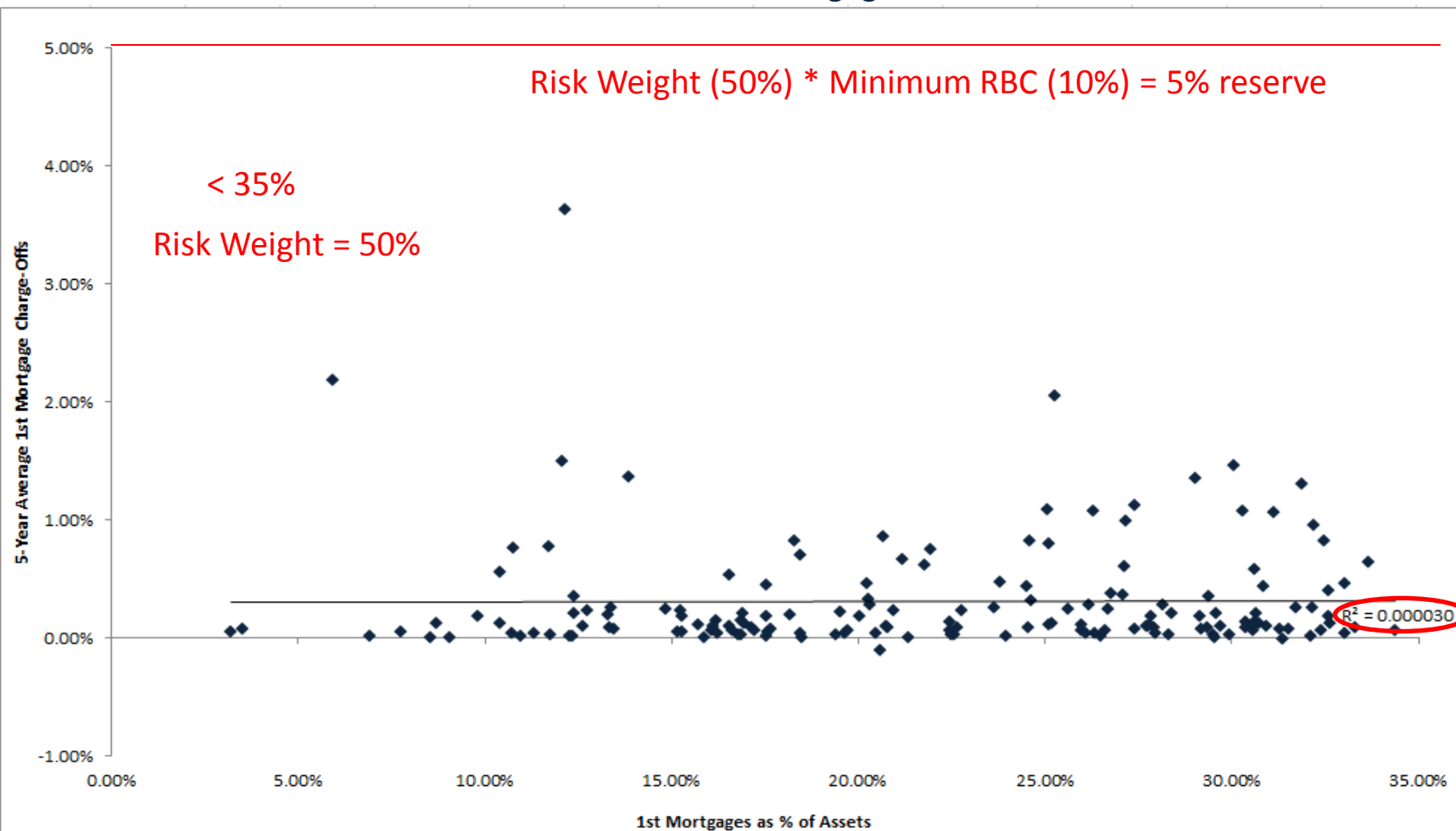
Higher Concentrations Do Not Correlate With Higher Credit Losses

% of 1st Mortgages Delinquent vs. 1st Mortgages as % of Assets
Data for CUs > \$1B as of 9/30/14



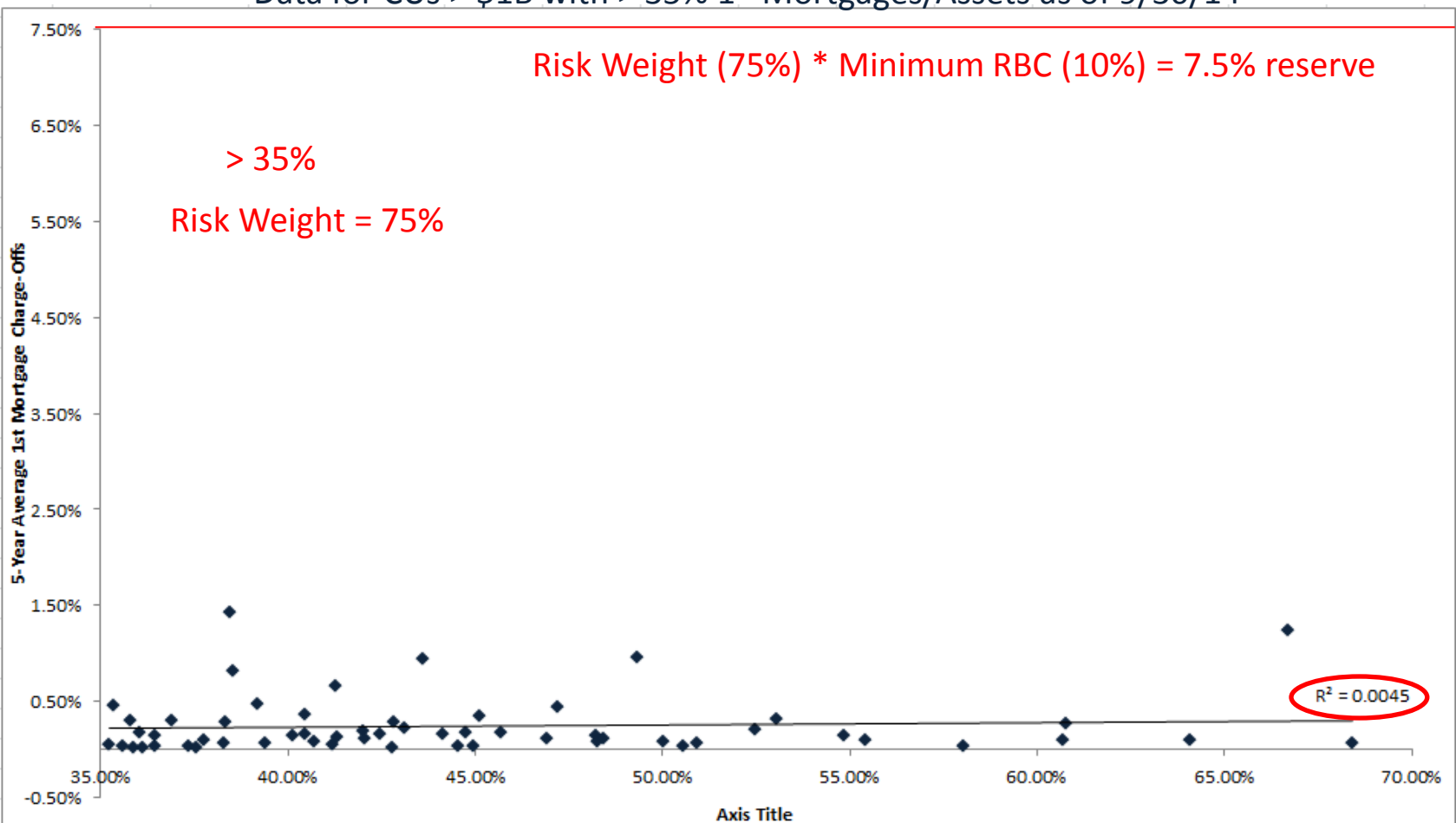
5-year record of 1st Mortgage Charge-offs for portfolios with less than 35% of assets of 1st Mtgs

5-Year Average 1st Mortgage Charge-Offs vs. 1st Mortgages as % of Assets
Data for CUs > \$1B with < 35% 1st Mortgages/Assets as of 9/30/14



5-year average 1st Mortgage Charge-Offs for credit unions with > 35% of assets in 1st Mtgs

5-Year Average 1st Mortgage Charge-Offs vs. 1st Mortgages as % of Assets
Data for CUs > \$1B with > 35% 1st Mortgages/Assets as of 9/30/14



An Assessment of Round Two's Proposal: Creating a less safe and sound cooperative system and a misuse of regulatory resources

A Tool, Not A Rule: 6 Fatal Flaws

1. Congress did not intend credit unions to be regulated the same as banks
2. RBC does not work and has not worked as a rule. U.S. banking regulators prefer a leverage capital ratio
3. No documented need for the rule: Record levels of industry capital, long-term record of capital adequacy in all cycles
4. Misuse of resources and regulatory focus: Failures are caused by fraud and poor management (see NCUA's own data)
5. What needs updating is the cooperative liquidity solution: CLF version 2.0. "In a crisis, liquidity trumps capital."
6. As a tool in beta, both industry and NCUA could learn from actual experience

Congressional Intent For Credit Unions & RBC

- “ A plain language reading of the Section 216(d)(2) indicates that Congress did not authorize the Board to adopt a two-tier RBNW standard... The board may not seek to piggyback the FDIC’s RBNW rules by ignoring the statutory provisions specifically prescribed by Congress for credit unions. ... Based upon my 30-plus years of experience as an attorney who has worked on many intricate issues of statutory and regulatory interpretation, I am of the view that NCUA does not possess the legal authority under the FCUA to adopt a two-tier RBNW regulatory approach.”
- From Board Member Mark McWatters’ statement at January 15, 2015, at NCUA open board meeting.

NCUA's Outside Legal Opinion Supporting The Rule: “ ... Is, At Best, Ambiguous.”

- “After careful review and deliberation, we find that the language of Section 216(d) is, at best, ambiguous with respect to the statutory authority of the NCUA to implement a two-tier RBNW requirement for complex credit unions.”

From Paul Hastings LLP opinion letter December 30, 2014.

NCUA's Rationale For The Rule

- “to be consistent with the FDIC”
- “so we match up with the other banking regulators”
- “Maintain equivalence with other banking agencies”
- “Must be comparable to banking rules”

“NCUA is required by the Federal Credit Union Act to maintain parity with federal banking regulators, which have made recent changes to their risk-based capital standards. Accordingly, NCUA’s revised proposal is very comparable to the risk-based capital requirements for banks.”

— Larry Fazio, Director, Office of Examination and Insurance.

FDIC Vice Chairman's Assessment Of RBC's Effectiveness

"The poor record of Basel I, II, and II.5 is that of a system fundamentally flawed ... It turns out that Basel capital rules protected no one: not the banks, not the public and certainly not the FDIC ... *The complex Basel rules hurt, rather than helped the process of measurement and clarity of information.*" (emphasis added)

September 14, 2012, Thomas Hoenig speech titled "A Better Alternative to Basel Capital Rules"

The FDIC board endorsed the simple tier 1 leverage ratio — the cooperative model — as the minimum capital standard at its April 2014 board meeting.

<http://www.creditunions.com/blogs/op-ed/fdic-approves-a-simple-leverage-ratio-to-improve-capital-adequacy-standards/>

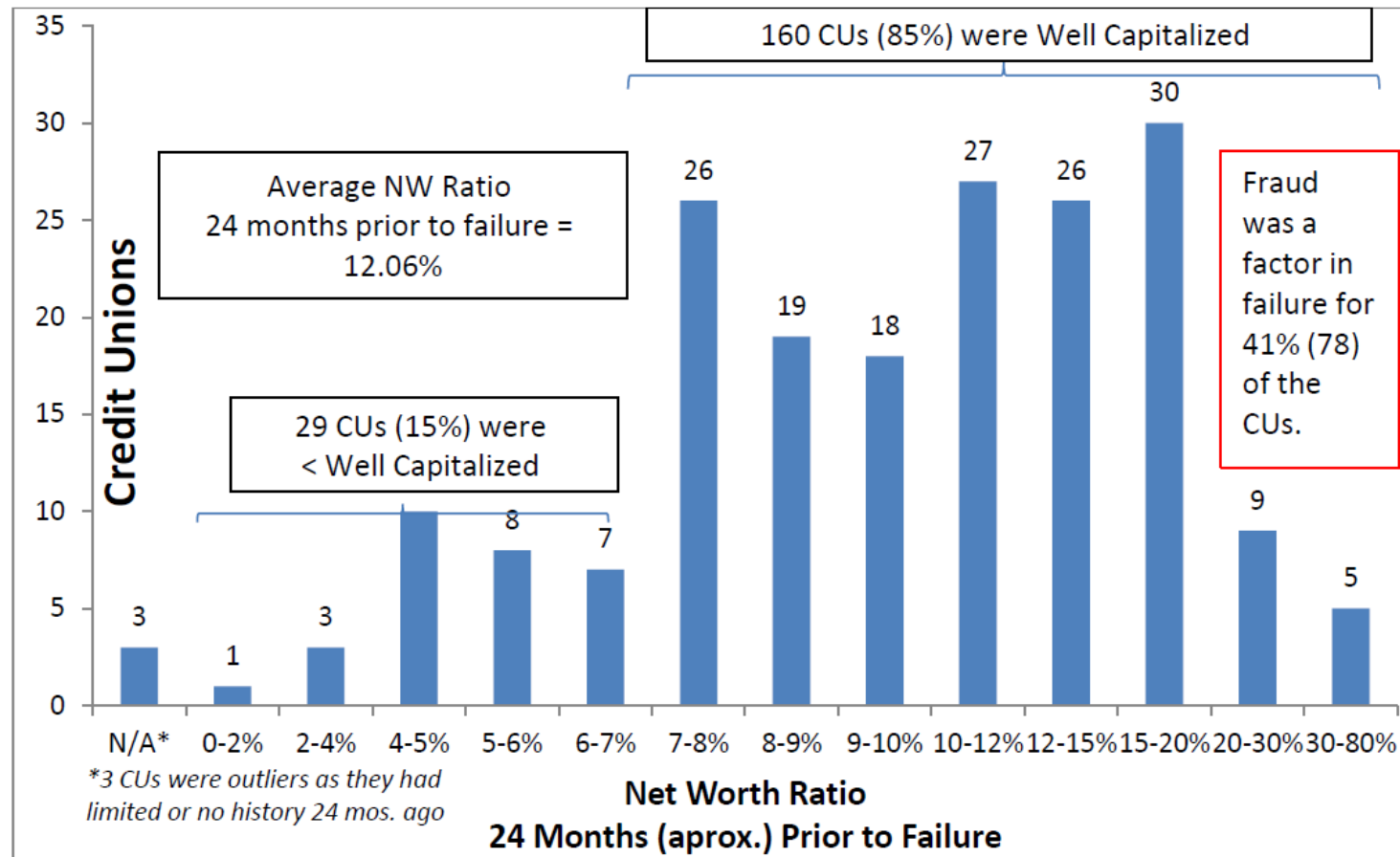
<http://www.creditunions.com/blogs/chip-filson-on-credit-unions/will-ncuas-revised-rbc-ruLink-le-benefit-from-banking-regulators-experience/#ixzz3PTjCM4Kj>

A Better Alternative To Basel Capital Rules: Speech by Thomas Hoenig, Director, FDIC, September 2012

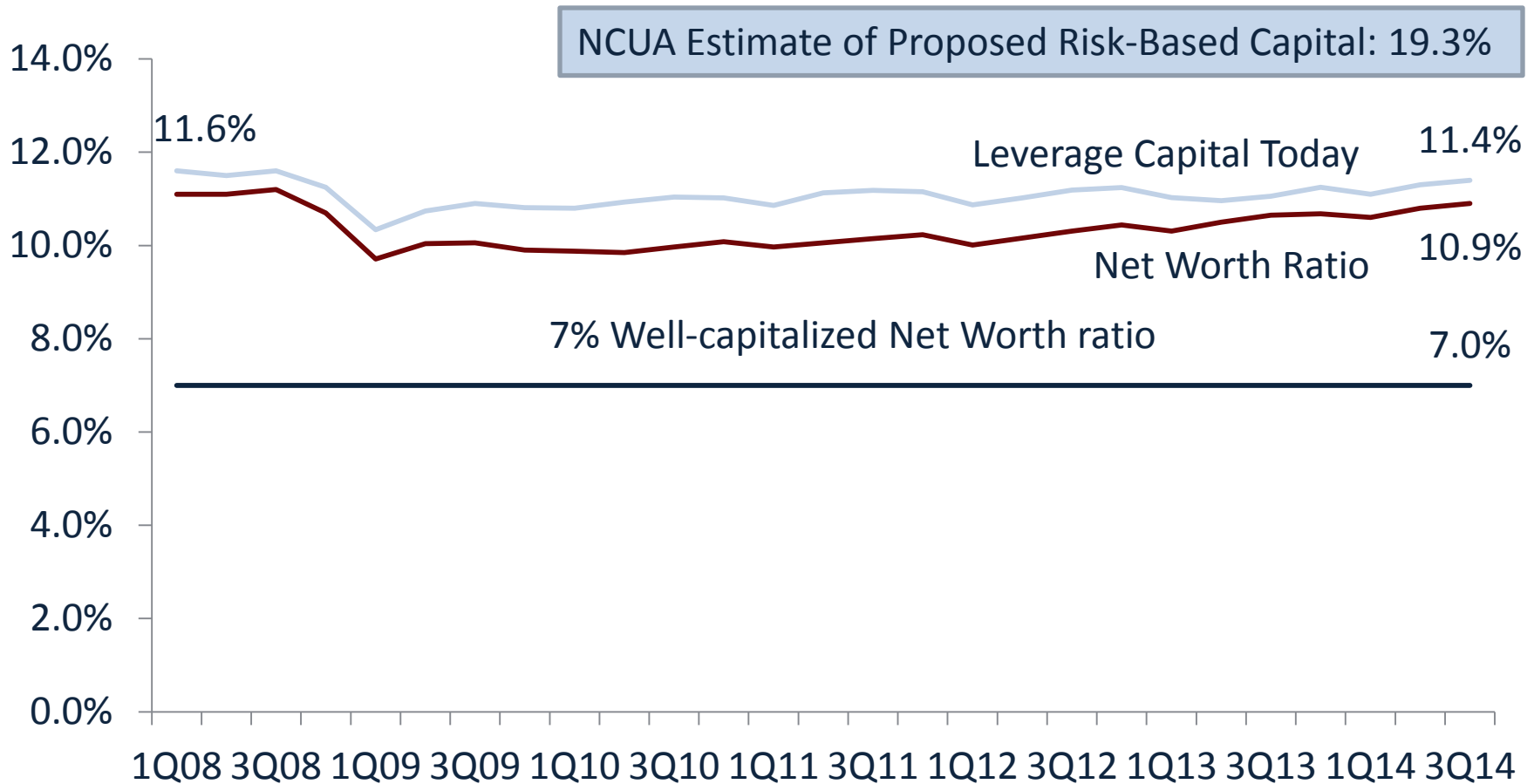
- “The poor record of Basel I, II, and II.5 is that of a system fundamentally flawed ... It turns out that Basel capital rules protected no one. . .
- An alternative: a capital rule must be simple, understandable, and enforceable. The measure that best achieves these goals is the tangible equity to tangible asset ratio. It does not tier the measure into any number of refined levels. There is not a government ex-ante endorsement of risk assets or capital allocations ... It provides a consistent and comparable measurement across firms.
- Conclusion: Basel III will not improve the outcomes for the largest banks ... nor improve the condition of small and medium-sized banks. **It continues an experiment that has lasted too long.**

Fraud Causes 41% Of Failures. Average Net Worth Ratio Prior To Failure: 12.06%

Net Worth Ratio 24 Months Prior to Failure (All CU Failures in the Last 10 Years)



Industry Has Maintained Capital Levels Before, During, And After The Financial Crisis



NCUA Proposed Revisions to Prompt Corrective Action - Risk-Based Capital

DRAFT

Risk Weights for Main Asset Categories

12/31/2014

DECEMBER 2014

	Risk-Weight	Assets	RWA
Cash			
Cash on hand	0%	340,993,598	-
Cash in transit	20%	333,304,735	66,660,947
Direct, unconditional claims on the Federal Reserve	0%	11,052,922,070	-
Investments			
Direct, unconditional U.S. Government obligations	0%	10,650,000	-
NCUA and FDIC issued Guaranteed Notes	0%	-	-
FHLB Stock and Balances	20%	15,273,590	3,054,718
Total other investments	20%	173,729,604	34,745,921
Corporate Perpetual Capital	150%	250,000	375,000
Loans			
First Lien Real Estate Loans			
0-35% of assets	50%	10,317,140,289	5,158,570,145
Excess over 35% of assets	75%	2,253,196,764	1,689,897,573
Not Current First Lien	100%	156,078,000	156,078,000
Junior Lien Real Estate Loan (HELOCs + Delinquent 1st Lien RE)			
0-20% of assets	100%	731,622,000	731,622,000
Excess over 20% of assets	150%	-	-
Noncurrent Junior Lien	150%	3,641,000	5,461,500
Consumer Loans – Current Secured	75%	1,681,515,230	1,261,136,422
Consumer Loans – Current Unsecured	100%	1,081,890,000	1,081,890,000
Consumer Loans – Noncurrent	150%	12,563,000	18,844,500
Member business loans			
Commercial Loans < 50% of Assets	75%	505,523,890	379,142,917.50
Commercial Loans > 50% of Assets	150%	-	-
Non-current	150%	-	-
Investments in CUSOs	150%	81,004,321	121,506,482
Mortgage servicing assets	250%	456,562	1,141,406
Other Assets	100%	691,169,891	691,169,891
Total unfunded commitments for non-business loans CCF	10%	2,000,768,189	200,076,819
NCUSIF deposit	-100%	245,608,501	(245,608,501.05)
Allowance for Loan Loss		(211,083,675)	
Unrealized G/L		94,312	
Total Assets		29,477,543,683	11,355,765,740

Risk-based Capital Calculation

Statutory Reserves	1,014,000,000
Capital Reserves	1,183,000,000
Retained Earnings	103,521,446
Insurance Deposits	(245,608,501)
Allowance for Loan Loss	211,083,675
Total Capital	2,265,996,620

SECU's Capital Ratios as of 12/31/2014

Net worth ratio	7.97%	> 7.00%	Well
Risk-based capital ratio	19.95%	> 10.00%	Capitalized

Misuse Of Resources And NCUA

Focus (McWatters' Comment)

- *NCUA has dedicated a significant portion of its institutional resources over the past 18 months to revising the proposed RBNW regulations with the ultimate goal of ensuring the safety and soundness of the NCUSIF. While I certainly concur with this objective, I disagree with the approach. If NCUA had issued an Advance Notice of Proposed Rulemaking regarding the anticipated rewrite of the RBNW regulations, there's little doubt that the overall vetting process of the proposed regulations would have progressed in a much more efficient, effective, and transparent manner.*
- *The allocation by NCUA of the cost savings generated from an expedited RBNW rulemaking process to fighting fraudulent activity within the credit union community and assisting the management of credit unions with the development of vigorous and resilient internal control systems and procedures would have further enhanced the safety and soundness of the NCUSIF without increasing NCUA's overall budget and placing any additional financial burden on an already overstressed credit union community and its members.*
- From statement by Board Member Mark McWatters, January 15, 2015, NCUA Board Meeting

NCUA's Record At 'Forward Looking'

- All capital credit models are based on prior experience and assumptions — they are not “forward looking”
- NCUA's 2010 estimate of corporate losses for a single asset class using best expertise available: in error by 50%, or \$8 billion, to date.
- NCUSIF loss expenses from 2011-2014 are all negative (reversals) due to extreme overestimate of the loss reserve in 2010 of more than \$1 billion.
- Market forecasting: “A majority of credit union member balances are in rate-sensitive accounts. ... Higher levels of interest rate risk will have a negative impact on earnings when rates rise. It is vital for credit unions with high exposure to interest rate risk to proactively restructure their balance sheets, sell off excessive concentrations of long-term loans, and re-price share products before rates begin to rise.” NCUA Letter no. 12-CU-01, January 2012: Supervisory Focus for 2012
- Multiple credit union experiences with examiner-forced balance sheet restructures for impending IRR risk that did not occur, including sales of loans, investments, and added borrowings.

Credit Unions Follow GAAP Allowance Accounting To Fund Required Reserves: One Single, National Credit Risk Capital System Does Not Fit 2,000 Credit Unions

“However, broadly applicable regulatory capital models are portfolio invariant. This means the capital charge for a particular loan category is consistent among all credit union portfolios based on the loan characteristics, rather than the individual credit union’s portfolio performance or characteristics. Taking into account each credit union’s individual characteristics would be too complicated for many credit unions and NCUA for minimum capital requirements.” Pg. 240, RBC proposal

The Real Missing Component Of The Cooperative System's Soundness

- In a systemic crisis, capital is trumped by liquidity
- “A lack of liquidity is what created the last crisis, and no amount of capital can substitute for a lack of liquidity.” Marty Mosby, *The Street*, May 17, 2013
- *NCUA dissolved the cooperative's liquidity safety net, which is the missing factor in system soundness, not capital. **NCUA is addressing the wrong issue.***

A Tool, Not A Rule

- If RBC has a value, it should first be validated before imposing a uniform rule on every asset risk assessment on a credit union's balance sheet.
- If incorrect, a single rule could push the industry over a cliff in a crisis
- Portfolio theory suggests that diversity, not uniformity, promotes safe and sound performance
- Cooperatives are member owned and governed. A single RBC rule compromises the autonomy and independence that are vital parts of credit union design.
- Better supervision, not rules, would reduce losses according to NCUA's own data. *There is no a priori shortage of capital even in credit unions that subsequently fail!*

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CREDIT UNION VOICES

CREDIT UNIONS NEED YOUR HELP. NCUA HAS ISSUED A SECOND RISK-BASED CAPITAL PROPOSAL FOR A 90-DAY COMMENT PERIOD. THIS VERY COMPLEX, INTRUSIVE AND ALL POWERFUL RULE WOULD MANDATE A SINGLE, UNIFORM STANDARD FOR EVALUATING THE RISK OF EACH ASSET ON A CREDIT UNION'S BOOKS.

THE COMMENTING PERIOD ENDS ON APRIL 30, 2015 - THE COUNTDOWN IS ON TO MAKE YOUR VOICE HEARD!

[**CLICK HERE TO DOWNLOAD THE SLIDES FROM CALLAHAN & ASSOCIATES' JANUARY 22, 2015 RISK-BASED CAPITAL WEBINAR**](#)

97.12:23:13

DAYS HOURS MINUTES SECONDS

Demonstrate And Defend The Cooperative Difference By Raising Your Voice

The member-owner cooperative system is different from the banking model. Congress empowered groups to organize and manage their own financial institution.

The member-owners play a vital role in the operation of every credit union and in the influence of the cooperative model nationally. We need every member to comment on this proposal that would make credit union's financial model mirror banks.

Time is short. Rally the grassroots. Send your comments to regcomments@NCUA.gov

How To Comment On The RBC Rule

There are three ways for anyone to comment on the NCUA's proposed risk-based capital rule:

The Quickest and Easiest: Visit CreditUnionVoices.com

Then:

Email: Send an email to regcomments@NCUA.gov

Subject line: NCUA Risk-Based Capital Proposed Reg

Fax: (703) 518-6391 Attn: Mr. Gerard Poliquin, Secretary, NCUA Board

Mail: (snail mail)

Mr. Gerard Poliquin
Secretary, NCUA Board

1775 Duke Street
Alexandria , VA 22314-3428

Ref: NCUA Risk-Based Capital Proposed Reg



Options For Submitting Your Comment

Visit CreditUnionVoices.com and click the “Email” Option

THERE ARE THREE WAYS TO COMMENT ON THE
NCUA'S PROPOSED RISK-BASED CAPITAL RULE



EMAIL

Send an email to regcomments@NCUA.gov




FAX

(703) 518-6391
Attn: Mr. Gerard Poliquin, Secretary, NCUA Board

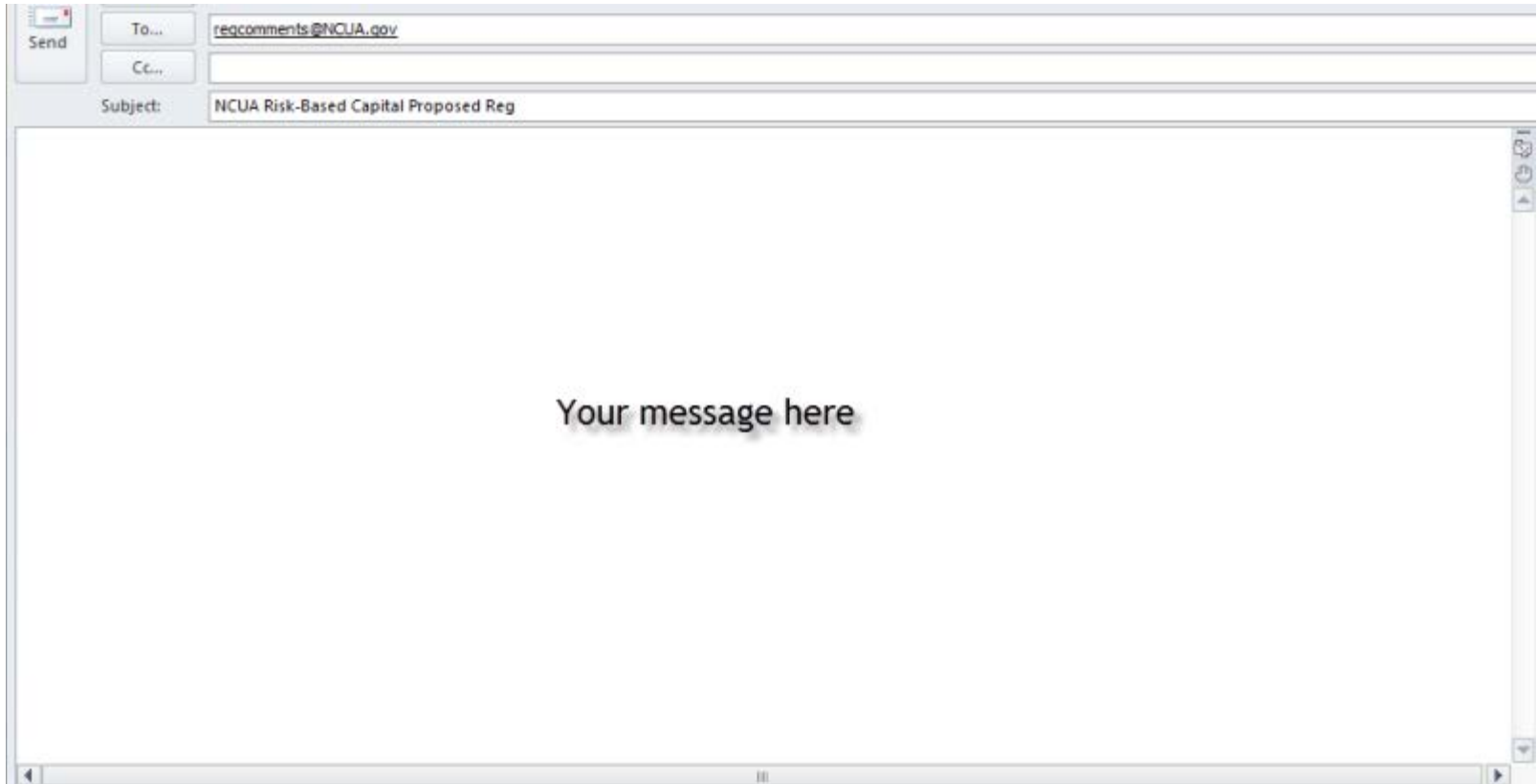


MAIL

Mr. Gerard Poliquin
Secretary, NCUA Board
1775 Duke Street
Alexandria, Va. 22314-3428
Ref: NCUA Risk-Based Capital Proposed Reg

 [READ SOME COMMENTS](#)

Easiest And Quickest Way To Submit A Comment!



The image shows a screenshot of an email composition window. The 'To...' field is filled with 'regcomments@NCUA.gov'. The 'Subject' field is filled with 'NCUA Risk-Based Capital Proposed Reg'. The main body of the email is empty, with the text 'Your message here' centered. The window has a 'Send' button in the top left corner and a vertical toolbar on the right side.

Send

To... regcomments@NCUA.gov

Cc...

Subject: NCUA Risk-Based Capital Proposed Reg

Your message here

Resources for researching comments and seeing what others have said: all links on CreditUnionVoices

<http://www.CreditUnionVoices.com> — Latest comment count and days remaining till commenting deadline

<http://www.creditunions.com/news/risk-based-capital/> — Visit our RBC landing page for complete set of articles and expert data analysis

<http://www.cuna.org/Legislative-And-Regulatory-Advocacy/Risk-Based-Capital-Blog/> — CUNA's Risk-Based Capital Blog

<https://www.nafcu.org/capitalreform/> — NAFCU's brief

<http://jimblaineoncreditunions.blogspot.com/> — Jim Blaine's extensive coverage

QUESTIONS?

**If you have a question or comment,
please use the chat box.**

Tell us what you think!



Please take our post-event survey. One lucky survey respondent will win a Starbucks gift card!

Supplemental Details: Risk Weight Changes Investments

Proposal 2 – Based on Credit Risk

0% = US Treasury, Ginnie Mae, NCUA (NGNs)

20% = Fannie Mae, Freddie Mac, FHLB, G.O. Muni's

50% = Revenue Bond Muni's, Private-issue MBS

100% = Non-agency ABS, Mutual funds, Agency stripped MBS

A very high percentage of CU investments would now have risk weights of 20% or less

Proposal 1 – Based on WAL (Weighted-Average Life)

0% = US Treasury, NCUA

20% for WAL < 1 Year

50% for WAL 1-3 Years

75% for 3-5 Years

150% for 5-10 Years

200% for > 10 Years

Risk Weight Changes

Other Investments

	Proposal 2	Proposal 1
Corporate perpetual capital	150%	200%
Central Liquidity Facility stock	0%	50%
FHLB stock	20%	50%
Investments in CUSOs	150%	250%
Balances due from FRBs	0%	20%
Federally insured deposits	0%	20%

Risk Weight Changes Loans

	Proposal 2	Proposal 1
Share secured	20%	75%
Current unsecured consumer	100%	75%
Commercial secured by compen. bal.	20%	N/A
Non-current commercial	150%	N/A
Guaranteed portion of SBA loans	0%	100%

Loan Concentrations

	Proposal 2 Thresholds	Proposal 2 Risk Weight	Proposal 1 Thresholds	Proposal 1 Risk Weight
Current 1 st residential	Up to 35% Over 35%	50% 75%	Up to 25% 25% to 35% Over 35%	50% 75% 100%
Current junior residential	Up to 20% Over 20%	100% 150%	Up to 10% 10% to 25%	100% 125%
MBL/Commercial	Up to 50% Over 50%	100% 150%	Up to 15% 15% to 25% Over 25%	100% 150% 200%

The definition of a “non-current” loan was increased from 60-days past due in Proposal 1 to 90-days past due in Proposal 2.

The threshold levels for concentration risk are as a percentage of total assets.