SchoolsFirst
FEDERAL CREDIT UNION

December 16, 2013

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Notice of Proposed Rulemaking – Capital Planning and Stress Testing

Dear Mr. Gerard Poliquin:

I am writing on behalf of SchoolsFirst Federal Credit Union, which serves school employees and their families in Southern California. We currently have more than 580,000 Members and $9.9 billion in assets. SchoolsFirst FCU appreciates the opportunity to once again provide comment and feedback on the NCUA Board's Notice of Proposed Rulemaking regarding the requirement of Capital Planning and Stress Testing for federally insured credit unions with assets of $10 billion or more.

We respectfully provide our opinions, feedback, and recommendations to address the following items within the proposed rule:

- Credit Union Capital Planning and Analysis
- NCUA Action on Capital Plans
- Annual Supervisory Stress Testing
- NCUSIF Deposit from Capital Base
- Public Disclosure of Stress Test Results
- Summary

Credit Union Capital Planning and Analysis

The proposed rule is requiring covered credit unions to develop and maintain a capital plan, which we fully support. However, the NCUA should take into consideration that credit unions have a much simpler business model, better historical financial performance and the presence of less factors and variables to erode our capital levels (e.g. dividends and acquisitions).

We do not agree with the requirement of using +/- 300 basis points on interest rate shocks due to the fact that the Federal Reserve's baseline, adverse, and severely adverse scenarios already factor in interest rate scenarios. This will create unnecessary duplicate efforts on the overall process. We recommend the NCUA, at a minimum, utilize the same scenarios as the Federal Reserve such as, the baseline, adverse, and severely adverse scenarios.

We do not agree with the requirement of modeling non-maturity shares not exceeding two years. A better approach would be to use a historical evaluation of each credit union, since credit unions are an industry that specifically works toward building long term relationships with their members. By using the 2 year requirement, it gives the impression that the NCUA does not support the relationships the credit unions have built with their members and communities. We propose the NCUA eliminates this part of the analysis from the regulation and instead, provide periodic scenarios based on qualitative and environmental factors that are more applicable to each specific credit union, based on their historical data. A blanket approach to this part of the assessment would not be beneficial for an industry that has different fields of memberships and various economic factors which change from region to region.

NCUA Action on Capital Plans

We agree with the need for the NCUA to review capital plans submitted by credit unions, but propose for the NCUA to work with the covered credit unions to ensure the plan meets NCUA standards. However, we do have concerns with the language that if NCUA disagrees, supervisory actions will be taken against a covered credit union, based on models and assumptions and not actual circumstances.

If for some reason there is a discrepancy with the Board of Directors, senior management of the covered credit union, and the NCUA, as to how the plan should look, a dialogue should occur to discuss the different perspectives of the model assumptions in lieu of taking a more aggressive approach such as supervisory action. This requirement seems to force the credit unions to change their business strategies in order to comply and thus allowing the NCUA to be in a role of managing covered credit union's business models.

Furthermore, we recommend the NCUA to consider the relevance of capital shortcomings when deciding on whether to accept or reject the plan submitted. There are several important components that determine how thorough and robust a capital plan is (e.g. internal processes, documentation etc.). Any shortcomings which do not impact capital strength of the credit union should be allowed to be resolved without the need of formally rejecting the entire capital plan initially submitted.

Annual Supervisory Stress Testing

We recommend that the stress test be conducted by the credit union and then provide to the NCUA to validate results. The credit union should have the option to perform this test internally or acquire an outside source to conduct in order to oversee and expedite the process more effectively. This also allows for a more streamline approach with regards to communication lines between the credit unions, the third-party, and the NCUA, ensuring all parties are on the same page. This approach will also mitigate the time and expenses, and places accountability upon the credit unions to ensure they are meeting the requirements set forth.

In turn, the NCUA can validate the results either internally or with the use of a third-party whereby the given results can then be reviewed and reconciled between the covered credit union and the NCUA.

See Appendix A: Flow Chart at the end of this document.

NCUSIF Deposit from Capital Base

The proposed regulation excludes the credit unions' NCUSIF deposit from the stress test capital ratio. Although we understand the NCUA's reasoning behind this proposal, we do not agree with excluding the NCUSIF deposit from the credit unions' capital, due to the further negative impact on the end-result of the stress test capital ratio scenarios included within this proposal. Currently, NCUSIF deposit is not excluded from the Net Worth reported to the NCUA, why should the test impose a different treatment to assess capital?

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Public Disclosure of Stress Test Results

We are recommending not incorporating a requirement to disclose the capital stress tests results at this time due to the potential inaccurate conclusions and misinterpretations regarding the health of the credit unions. It would not be beneficial and could potentially cause unnecessary alarm to credit union Members, which may result in a negative outlook on credit unions as a whole. The NCUA can determine at a future date whether to disclose the results or once the suggested trial period has proven to be both stable and indicative of the credit unions' capital adequacy. Currently, NCUA is not publishing CAMEL's ratings; shall stress testing results be published?

Summary

We want to emphasize the lack of parity between the NCUA's proposed rule and the rules currently governing banks. Credit unions have historically demonstrated safety and soundness, specifically during the recent financial crisis. The NCUA's proposal for credit unions to adhere to standards and practices beyond those applied to equivalent sized banks puts the credit unions at a large competitive disadvantage. Furthermore, credit unions do not have the access to certain resources (e.g., hedging instruments or secondary capital markets) that banks currently do. Therefore, the rules should be designed to align according to the risk profile and the regulatory framework of the large credit unions.

We recommend the delay of final ruling on the requirement of stress tests to allow for the development of the set assumptions, models and processes. A better approach may be to allow for a trial period to identify implementation issues, functionalities, and overall credit union parameters on a program initially designed for banks. The results of this trial period should be evaluated and modified as needed, after a pre-determined amount of time, to ensure the stress tests are more appropriate for the credit union business model and practices.

Thank you for the opportunity to comment on this NPRM and for considering our perspective and recommendation on Capital Planning and Stress Testing.

Sincerely,

Francisco Nebot
Senior Vice President, Chief Financial Officer
SchoolsFirst Federal Credit Union

Cc: Credit Union National Association (CUNA)
California/Nevada Credit Union League (CCUL)

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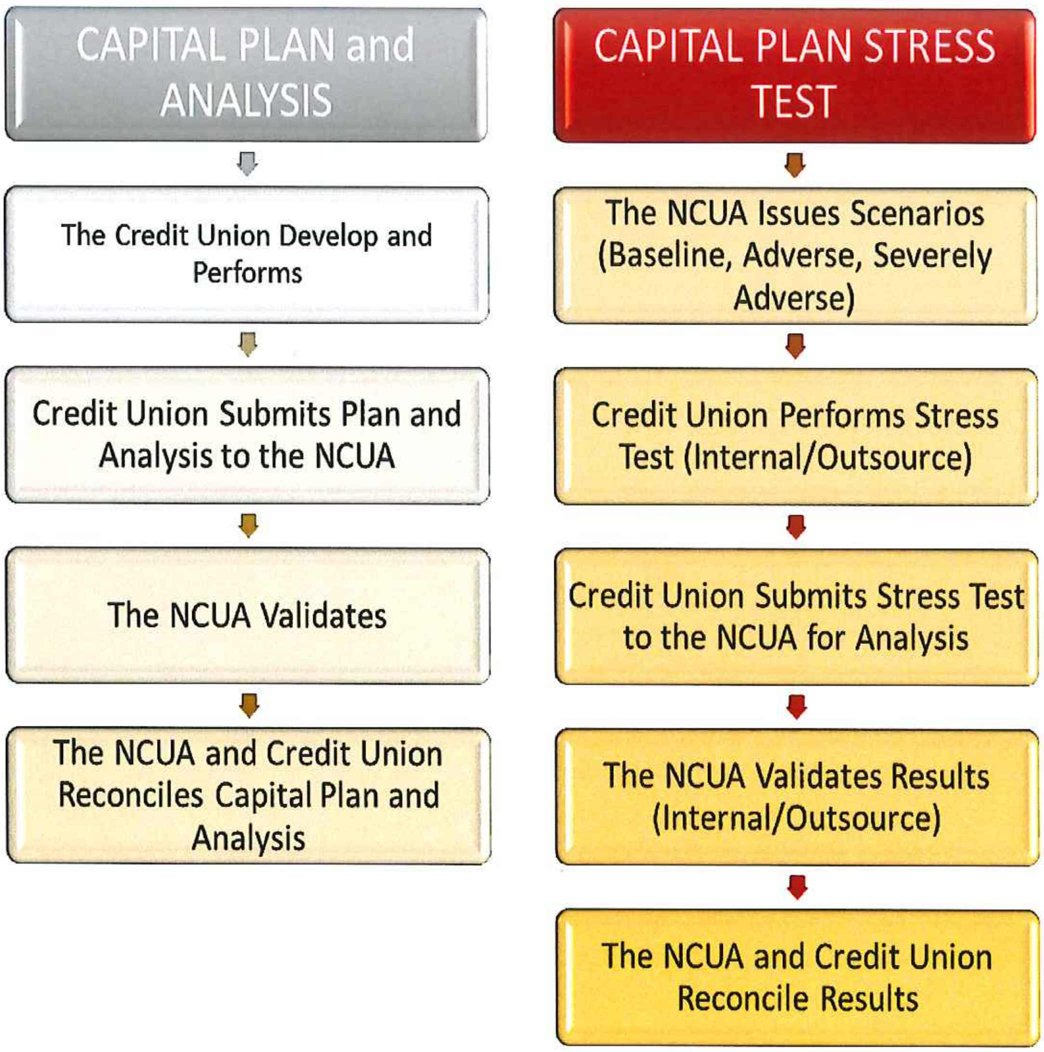
Appendix A: Flow Chart



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