PACIFIC MARINE
CREDIT UNION

May 15, 2014

Mr. Gerard Poliquin
Secretary to the NCUA Board
1775 Duke Street
Alexandria, VA 22314

RE: NCUA's Proposed Rule for Risk-Based Capital

Dear Mr. Poliquin:

On behalf of Pacific Marine Credit Union (PMCU), which is a DOD credit union located in Southern California, with $700 million in assets, serving over 75,000 members, and **having a net worth capital ratio of over 14%,** I am writing in response to the NCUA's proposed rule for risk-based capital.

For the most part, PMCU concurs with and supports NAFCU's analysis that the proposed rule's impact to credit union's larger than $50 million in assets, will cause a divide in the industry. While we agree that the regulatory capital system should be updated to better reflect risk, we support NAFCU's opposition to the NCUA's proposed rule that splits the industry into two groups. If adopted, the rule could require some credit unions to shoulder a disproportionate amount of burden related to the safety and soundness of the credit union system.

NAFCU has outlined a legislative solution that would institute fundamental changes to the credit union regulatory capital requirements. We ask that you please take this Five-Point Plan for Regulatory Relief into consideration, and make the much needed (and appropriate) changes to the rule before it becomes final. The plan, as it relates to capital reform:

- Directs the NCUA to, along with industry representatives, conduct a study on prompt corrective action and recommend changes;
- Modernizes capital standards to allow supplemental capital, and direct the NCUA Board to design a risk-based capital regime for credit union that takes into account material risks; and,
- Establishes special capital requirements for newly chartered federal credit unions that recognize the unique nature and challenges of starting a new credit union.

In support of the need for the NCUA to make changes to the proposed rule before it becomes final, I am including a list of arguments broken down by topic.

Respectfully,

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CUSOs

• The 250 percent risk-weight for investments in CUSOs is arbitrary, lacking in sufficient rationale, and doesn't reflect the actual risk of investing in CUSOs.

• CUSO investments should be weighted at 100 percent.

• Any exceptions to potential credit union risk should be managed through the examination and supervision process and not by a system-wide capital regime.

Investments

• The proposed rule would unfairly penalize credit unions and shows a bias towards lending and against investments.

• The current risk-weights don't accurately reflect the interest rate risk for short-term and middle-term investments such as those under a 5 year maturity.

• An alternative risk-weight system for investments that doesn't penalize credit unions for all investments with an over a year maturity is preferred over the proposed rule.

Non-Delinquent First Mortgage Real Estate Loans

• The proposed risk-weights for non-delinquent first mortgage real estate loans are too high and penalize too many credit unions for concentrations of loans that are not inherently risky.

• An alternative structure that still incorporates an element of concentration risk for non-delinquent first mortgage real estate loans would be to reduce the number of concentration risk buckets from 3 to 2 and introduce larger ranges of asset concentrations.

Mortgage Servicing Assets

• Giving mortgage loan servicing assets a 250 percent risk-weighting is artificially high and excessive.

• Set the risk-weights for Mortgage Servicing Assets at 150 percent.

• Incorporate recourse into the equation when determining the risk-weight and allow a lower weight of 100 percent if the loans are sold without recourse but are still serviced.

Member Business Loans (MBLs)

• NCUA's proposed rule risk-weights for MBLs are punitive for credit unions chartered for the purposes of MBLs.

- NCUA should give credit unions chartered historically for business loan purposes a different set of risk-weights that doesn't require them to abandon their core mission for their membership and their MBL portfolio should be given a risk-weight of 100 percent and managed through examination and supervision.

- Any final rule should give credit to credit unions with proven minimal losses in business lending.

- Risk-weights should also be broken down for types of loans such as agricultural MBLs or commercial real estate MBLs.

Corporate Paid-In Capital

- Corporate paid-in capital is risk-weighted too high at 200 percent.

- Paid-in capital would be more appropriately weighted at 125 percent to recognize that the corporate credit union structure is now a less risky asset than was during the crisis.

- A weight that reflects the actual risk for paid-in capital to corporate credit unions would benefit natural person credit unions, corporate credit unions, and the share insurance fund.

Individual Minimum Capital Requirement

- There are serious concerns about the legal authority of NCUA to enact individual minimum capital requirements.

- This portion of the regulation undermines the entire purpose of the rule.

- The difficulty for credit unions is compounded when the rules can change this provision just adds uncertainty to credit union management.

- This section should be removed from any final rule.

- The appeals process needs to be revised and include an independent resolution.

Implementation Period

- The 18 month proposed implementation time period is not nearly enough time for credit unions to make changes to their balance sheets in a safe and sound manner.

- Any implementation period should be at least 3 years from the passage of any final rule in order to give credit unions enough time to raise capital through retained earnings or make changes in their operations.

• A 3 year implementation period more appropriately compares to the time frames given to the banking industry by their regulators during the implementation of the BASEL standards.

Supplemental Capital

• Supplemental capital authority is needed now more than ever considering the restrictions brought on by this rule.

• Supplemental capital authority is not the answer to the entire industries worries about capital, but it is a powerful tool that should be given to all credit unions.

• NCUA should call on Congress to pass a legislation solution that modernizes capital standards to allow supplemental capital and directs the NCUA Board to design a risk-based capital regime for credit unions that takes into account material risks instead of the current proposed rule.

Goodwill

• Removing Goodwill will negatively affect credit unions that have had recent mergers by failing to allow them to fully realize the previously accounted for benefit.

• Removing Goodwill will present a disincentive for healthy credit unions to become merger partners for troubling or failing credit unions because of the possible significant negative effect to their risk-based net-worth ratio.

• Goodwill should be added back into the numerator for the risk-based capital ratio.