MISSION FEDERAL CREDIT UNION

May 8, 2014

MAY16'14 PM 2:21 BOARD

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

RE: Comments on Notice of Proposed Rulemaking for Risk Based Capital

Dear Mr. Poliquin:

On behalf of Mission Federal Credit Union, a well-capitalized $2.5 billion credit union in San Diego, California, I am writing regarding the National Credit Union Administration's (NCUA) request for comment on the proposed rule on Risked Based Capital.

Mission Fed is generally in favor of stronger capital requirements for credit unions and including a risk-based approach. We feel that stronger capital is a benefit to our industry and the insurance fund. The approach the NCUA is proposing, however, appears to be a reaction to the past economic crisis, rather than a forward looking view. Relative weightings appear inconsistent; for example, whether CUSOs are riskier than delinquent mortgages comes into question. In particular, we believe the 250 percent CUSO risk weighting will hurt the value of existing CUSOs as the capital required to support them will significantly increase. This will additionally make it more difficult for credit unions to use CUSOs to diversify revenue streams. The proposed rule also doesn't explain the difference in proposed risk-weights between the 250 percent for investments in CUSOs and 100 percent for loans to CUSOs. This would suggest that loans to CUSOs are 2.5 times safer than investments in CUSOs. We strongly believe that the 250 percent risk-weight for investments in CUSOs lacks sufficient rationale, and doesn't reflect the actual risk of investing in CUSOs. We believe CUSO investments should be weighted at 100 percent.

We also believe that the 150 percent weighting for 5 to 10 year securities is excessive, doesn't reflect the safety of principal and ignores any interest rate risk mitigation that may be done individually by credit unions.

We believe that this proposal has the unintended consequence of punishing credit unions for investing in the credit union industry. Based upon the risk weightings, it appears that the riskiest assets in which a credit union can invest are Corporate Credit Unions and CUSOs. Although there were a couple of high profile credit union losses partially driven by bad CUSO investments, the overwhelming majority of CUSOs are performing very well, generating savings through economies of scale and providing non-interest income to their credit union owners. This proposed rule could force credit unions to reconsider current investments in CUSOs as well as in the future. As the owner of a financially sound CUSO (Autoland), which incidentally

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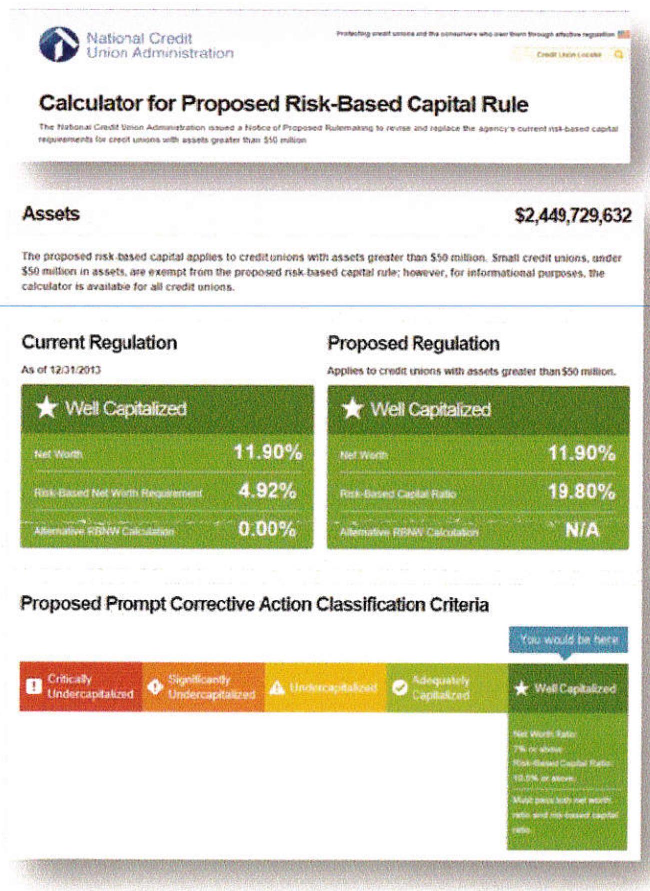
received lengthy and detailed NCUA scrutiny when we acquired the asset through NCUA from the failed Telesis Credit Union, we believe this will impact the present value of our CUSO and its future worth.

An additional concern we have with the proposed rule is with respect to dividends. Under the proposed rule, well capitalized credit unions could pay dividends only if their net worth classification does not fall below 'adequately capitalized,' unless they receive NCUA approval. Currently, credit unions may pay dividends out of the regular reserve account without regulatory approval, as long as the credit union will remain at least adequately capitalized. We are concerned as to the reputation risk incurred under this scenario where a credit union cannot pay dividends in a timely manner, as they await NCUA approval. This added uncertainty would be very harmful to our industry as a whole if dividends (perceived by the public as an obligation) are not paid. We are also concerned that this sets a dangerous precedent of over management by the NCUA as opposed to the role of regulation.

We agree that a strong capital system helps mitigate risk; as an industry we are all better off with strong players in the credit union system. This new regulation would not hurt Mission Fed today. The NCUA website shows that under this capital plan, Mission Fed's position actually improves as shown to the right. We do, however, believe that this will hurt other credit unions, and in the long term serve to constrain our growth.



We are concerned that NCUA's detailed categorical assumptions about the type of investments and loans a credit union should be making in the future are essentially micromanaging decisions that should be left to CEOs and credit union Directors. Of particular concern in this area is the flexibility given to examiners to determine, arbitrarily, the need for some credit unions to have a higher risk based capital requirement outside of this formula. This is almost guaranteed to cause problems. It is not possible to run a successful credit union without risk. We would support a more sophisticated capital system and a proposal that helps mitigate systemic risk, however this proposal does not adequately address those concerns.

Thank you for this opportunity to provide our comments.

Kind regards,

Debra Schwartz
President and CEO
Mission Federal Credit Union