

May 23, 2014

Gerald Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: Comments on Proposed Prompt Corrective Action – Risk-Based Capital Regulation

Dear Mr. Poliquin:

SELCO Community Credit Union appreciates the opportunity to provide comment on the proposed risk-based capital rule. At nearly \$1.2 billion in assets, SELCO serves over 110,000 members throughout twenty-six Oregon counties. For nearly 80 years, we have successfully served members in Oregon, providing valuable products and services while maintaining a strong financial position.

SELCO Community Credit Union currently maintains a “well capitalized” designation with a net worth ratio of 9.83% and a risk-based net worth requirement of 5.26%. Under the proposed regulation using the risk-based capital calculator provided on the NCUA website, SELCO’s risk-based capital ratio is 13.57% which remains well above the proposed 10.5% risk-based capital ratio requirement for a “well capitalized” designation.

However, we remain concerned that this proposed regulation is harmful to the industry as evidenced by the significant number of credit unions projected to experience a decline in their capital cushion. For SELCO, we anticipate the increased capital requirement to impede growth objectives and influence future business strategies in a manner that will certainly diminish the level of service we provide to members both currently and in the future.

In addition, we do not believe the proposed rule meets the NCUA-stated objective to adequately ensure that capital levels are commensurate with credit union risk levels. In fact, there are risk-weightings included in the proposed regulation that are contradictory to other regulatory requirements, specifically those related to interest rate risk, credit risk and liquidity risk.

There are several considerations within the proposal that are deeply concerning to our industry as a whole and to SELCO in particular. That being said, I would like to concentrate my comments to the following areas of particular concern for our organization:

Investment Risk Ratings

U.S. Government obligations and NCUA guaranteed notes (NGN) are assigned a zero risk rate, regardless of the term of the investment. This implies that the lack of credit risk in a government-guaranteed instrument eliminates the interest rate risk; this is inaccurate and does

not adequately reflect the risks associated with the investment. This example effectively illustrates what appear to be the non-supported risk ratings assigned throughout the proposal.

In addition, a 1250% risk weighting is assigned to any asset-backed instrument if an examiner determines a credit union does not have a “comprehensive understanding of the features” of the investment. In my experience, many examiners lack the expertise to make this type of determination and the penalty in this instance outweighs the true risk associated with the investment. Moreover, such a determination is necessarily subjective, which is problematic at best and leaves room for possible abuse at worst. Finally, such subjectivity varies from one examiner to the next based upon the specific examiner’s personal experience which is inconsistent with sound oversight practices; a credit union should reasonably know the standard against which it is measured.

Member Business Loans

Member business loans (MBLs) are risk-weighted based on the concentration of loans in the portfolio, regardless of the collateral type, loan-to-value ratio, term or inherent structure of the loan. This type of weighting criteria does not adequately reflect the risks in a specific portfolio, but simply assigns a higher risk factor as the concentration of loan balances increase. In addition, the risk weightings in the proposed rule are much more punitive than Basel III requirements placed on commercial banks placing credit unions at a competitive disadvantage.

This proposal may harm a credit union that historically operates a safe and sound MBL program and limit future lending to businesses in the communities we serve. In particular, this proposal significantly impacts credit unions previously granted higher MBL limits and may force them to consider eliminating programs or reducing portfolio balances.

CUSO Investments

The risk weight for credit union service organizations (CUSOs) treats all CUSOs the same regardless of business lines, financial position or ownership structure. CUSOs provide an excellent opportunity for collaboration efforts in a variety of areas as well as strong avenues for credit unions to generate additional revenue in a safe and sound manner. SELCO is currently involved with Inova, LLC, a multi-credit union owned CUSO which provides significant cost reductions in a variety of areas. If the NCUA believes there is a specific problem that should be addressed with certain CUSOs, the agency should address that specific risky behavior rather than treating all CUSOs the same. The 250% risk-weighting of total investments in CUSOs and the 100% risk-weighting of the total loan principal amount outstanding loaned to CUSOs seems arbitrary and unsupported. Moreover, such arbitrary measures will most likely result in credit unions removing retained earnings to decrease investment amounts thus potentially causing insufficiently capitalized CUSOs.

Individual Minimum Capital Requirements

The provision allowing the NCUA to establish increased minimum capital requirements for individual credit unions is troubling and unnecessary. The subjective nature of imposing this type of heightened requirement is deeply concerning to our organization. There are currently

avenues in place for examiners to address risks in individual credit unions, including exam findings, Documents of Resolutions and Prompt Corrective Action. This additional authority increases the potential for confusion among boards, management and examiners with no clear guidelines delineating the reason for a higher individual standard. The proposed section invites inconsistency, an arbitrary application of rules and a reliance on the opinion of an individual examiner.

Allowance for Loan Losses

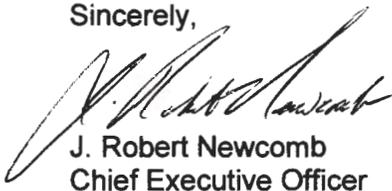
Limiting the amount of Allowance for Loan Loss reserves in the capital calculation is problematic for all credit unions. Examiners continue to encourage credit unions to maintain excessive funding in the Allowance for Loan Loss account yet this proposal limits the reserves that can be counted in the capital calculation.

In summary, we recognize the ever-changing financial services landscape and acknowledge the increasing complexity of credit unions. However, credit unions have weathered the most recent economic crisis extraordinarily well while working within the current capital requirement. This is an excellent indication of the strength within our industry and causes one to objectively question why such dramatic and sweeping revisions are necessary.

We encourage the NCUA Board to carefully consider the comments received and to amend the proposed regulation to reflect the insight you have gained prior to finalizing the rule. In the event the proposal is finalized, we recommend a lengthier, phased-in implementation timeline to allow credit unions time to prepare for the impending changes and better understand the implications for their unique situation.

Thank you for the opportunity to comment on this proposed rule and for considering our views on risk based capital requirements.

Sincerely,



J. Robert Newcomb
Chief Executive Officer