

From: [Chuck Papenfus](#)
To: [Regulatory Comments](#)
Subject: NCUA Risk-Based Capital Proposed Reg
Date: Tuesday, May 27, 2014 2:32:30 PM

May 27, 2014

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

Re: Comments on Proposed Rule: PCA – Risk-Based Capital

Dear Mr. Poliquin:

I am writing on behalf of Inland Valley Federal Credit Union (IVFCU), which serves the underserved area including the cities of Fontana, Rialto, Colton, Bloomington and Muscoy. We have 3,400 Members and \$39 million in assets. While we are not currently subject to the rule as written, we anticipate growing as we continue to adhere to the principles of serving our community as a low income designated credit union. Thus, IVFCU appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule regarding Prompt Corrective Action – Risk-Based Capital. We understand the underlying reason for risk-based capital principles and don't oppose the concept of establishing a risk based capital system. However as currently drafted, we feel strongly that the proposed rule will severely harm the credit union industry by creating a significant competitive disadvantage in the market place. Additionally, we believe it will restrict credit union options to structure individual balance sheets to match unique membership areas and needs. We respectfully submit comments on the following sections of the proposed rule.

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Parity with Banks

Risk-based capital is appropriate, but the requirements for credit unions should not be more restrictive and punitive than they are for U.S. banks and any other financial institution in the world under the Basel III framework. This places credit unions at a competitive disadvantage and will result in a reduced ability for credit unions to serve their members and communities.

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Individual Minimum Capital Requirements

The proposed rule gives NCUA authority to require even higher capital for individual credit unions. I disagree with the addition of a subjective component to an objective calculation. Additionally, I have concerns of inconsistent application when adding a human component, especially when a credit union's examiner changes. It would be extremely difficult to run a business when discretion changes from exam to exam. Therefore, I recommend this section be stricken from the final rule.

I also have concerns about the adequacy and equitableness of a system where the appeal process remains within the examiner's chain of command; appeals should be reviewed and mediated by an independent party.

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RBNW Calculation Concerns

NCUSIF Deposit Classification: The NCUSIF deposit is a valid asset on the books of a

credit union. It may be refunded in multiple ways such as credit union charter conversion or election of private insurance. It provides an additional buffer to the credit union's capital in an event of loss. Therefore, I believe it should not be deducted from the numerator (this action alone artificially reduces a credit union's risk based net worth by over one percent).

Allowance for Loan Loss Limitations: Limiting the ALL to 1.25% of risk assets is a reduction from the 1.50% of total loans under the current risk-based net worth requirement. Current FASB rule considerations include adopting a Current Expected Credit Loss (CECL) model. This change would increase reserve requirements, yet the risk-based capital proposed rule reduces the ALL benefit. ALL reserves are real funds to absorb future losses and therefore should not be discounted or limited; however if they are, the discount or limit should not be reduced from current standards, instead an increase should be allowed in anticipation of the upcoming FASB rule changes.

Term Investments: Longer Term Investments with no credit risk such as securities issued by Fannie Mae or Freddie Mac are scored higher than similarly termed treasury securities or member loans. I ask that investment risk ratings and allocations be reconsidered to classify equally with similar asset classes.

Asset Backed Investments: The rule does not define "asset-backed investment." Does the NCUA intend this to apply to investments in asset-backed securities? Additionally, "demonstrating a comprehensive understanding of an asset-backed investment" is based on an examiner's subjective judgment and a long list of examples. I believe this section should be removed or better defined and altered to eliminate inconsistent and subjective treatment.

CUSO: The total Value of CUSO investments is classified at 250%. Initial and subsequent cash outlays are not treated differently than retained patronage dividends. No consideration is given to the financial stability of the CUSO. I believe a CUSO can be a valuable part of the business operations of a credit union. IVFCU is an invested owner and conducts business with multiple CUSOs. These CUSOs have provided significant returns to the credit union in the form of lower prices, increased efficiencies, and providing the ability to be competitive with pooled credit union resources where we would not be individually. In our view, this unwarranted high risk weighting of CUSO investments is a subtle, or perhaps not so subtle, way of attempting to steer credit unions away from CUSO formations and investments. CUSOs provide innovation within the credit union system that allows us to serve our members with current products and technology. We strongly believe this risk weighting needs to be significantly reduced and recommend a risk weight of 100%.

No Differentiation within Asset Classes: Mortgage Loans and Business Loans are uniformly treated based upon percentages of assets. However, these loans may have a wide variety of loan to collateral ratios or life ratios; e.g. a 30% LTV loan with 5 years remaining is scored equally to a 90% LTV loan with 25 years remaining. In addition, no differentiation is made between fixed rate and variable rate loans. I believe additional consideration needs to be given to remaining maturity on loans, loan to value and rate type.

No Consideration for Liability Structure: Credit unions structure assets based upon the structure and characteristics of the entire balance sheet. Having liabilities that are longer-term or act longer-term can be prudently matched with assets that are longer-term. These items are measured during a credit union's ALM analysis. I believe consideration should be given to ALM factors which mitigate the impact of asset term length.

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NCUA is exceeding their authority

Congress never intended for NCUA to set up a risk-based capital standard for well-capitalized credit unions. The FCU Act directs NCUA to devise a risk-based requirement, but the risk-based component for the well-capitalized threshold can be no higher than the component for the adequately capitalized level. Under NCUA's proposal, however, that is not what would happen. This goes against the current FCU Act and system of Prompt Corrective Action.

In conclusion, we would support a sensible, lawful approach to risk-based capital requirements; however, I believe this proposed rule will do more harm than good. Additionally, the 18 month time frame before the rule goes into effect is too short to allow credit unions to study the rule, formulate a long term strategy and re-shape the balance sheet appropriately. I propose that any risk-based capital calculator be considered as an examiner's modelling tool initially, followed by a study on the effects before any requirements be imposed with PCA implication on credit unions.

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

Sincerely,

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