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To: [Regulatory Comments](#)
Subject: PCA-Risk-Based Capital Proposal
Date: Wednesday, May 28, 2014 11:33:53 AM

May 28, 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:

As Chairman of the Board, 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. IVFCU has 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. I 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, I 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. I respectfully submit comments on the following sections of the proposed rule.

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.

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.

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).

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. I strongly believe this risk weighting needs to be significantly reduced and recommend a risk weight of 100% or less.

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, I 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,

Chris Krueger
Board Chairman
Inland Valley Federal Credit Union