February 21, 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; RIN 3133-AD77

Dear Gerald Poliquin,

Dear Sir/Madam,

I am writing on behalf of Great Basin Federal Credit Union, which serves the Reno/Sparks area of Washoe County, Nevada. We have 16,000 Members and $125,000,000 in assets. Great Basin Federal Credit Union appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action – Risk-Based Capital.

I do find it interesting that after years of requesting of NCUA to use its authority to adopt Risk Based Capital (RBC) that the industry is now asking if the NCUA proposal is necessary. A well designed RBC policy can be an appropriate guide for individual credit unions and a protection to the integrity of the credit union industry. I do believe the proposal as it exists is excessively conservative and will actually restrain the healthy growth of the industry and put credit unions at a competitive disadvantage to other financial institutions.

My credit union resides in Nevada, the worst impacted environment of the worst Recession since the Great Depression. We started at 9.6% Net Worth (NW), shrunk to 5.1% and exceeded 9.6% in 2013. We did this while funding for all the additional assessments for the corporate credit unions and the NCUSIF premiums for regular person credit union losses. I believe we have gained a unique appreciation for how much capital is enough.

As a general statement I have several over-arching concerns with the proposal as presented that are reflected in the details of the proposal that guide my concerns. First, there seems a multiplier or duplication effect of how we are to account for all the various types of risk (credit, interest rate, concentration, etc.) between the ALLL, the NCUSIF Capitalization Deposit and Net Worth. Risk reserved for within the ALLL for credit risk should not be duplicated under RBC.

Additionally and more appropriately and as demonstrated, RBC for our credit union would have been appropriately around the 7% level in the 2008 time period with our balance sheet as it then existed. We went through less than half our capital at the worst place, at the worst time. So whatever risk we may have added with additional real estate concentrations and MBLs might bring it up some but it is doubtful to 10.5%. Again, this is above the ALLL credit funding provided for the increase in RE & MBL loans.

I am also concerned that NCUA has determined to differentiate their RBC proposal so much from BASEL III, and that FDIC institutions will have more time and flexibility for its implementation. Material differences from BASEL III will put credit unions at a competitive disadvantage in the market place.

Additional items of concern in the details of the RBC Proposal:

1. The proposal excludes the NCUSIF 1% deposit from both numerator and denominator. I believe it should be included in the numerator as an obvious resource in comprehensive risk coverage and in the denominator only as a zero risk item, as NCUA has control of these funds.

2. The inclusion of the ability of NCUA to direct a minimum capital requirement for a specific individual

credit union at the arbitrary and subjective determination of the Administration is inappropriate and would lead to unnecessary recriminations. Let the final RBC regulations and future experience direct any enhancements to the process. This is a regulatory security blanket and would only promote distrust.

3. The Off-Balance Sheet computations seem very excessive and add unnecessary risk assets. One of them relates to unfunded MBL LOCs and the requirement for a 75% conversion factor with a 100% risk weight. I may misunderstand the verbiage, but if I read it right a $10,000 LOC that is funded to $6,000 would require a RBC funding of 10,000 X .75 = $7,500 for a $4,000 unfunded commitment.

4. The limiting of the ALLL to the 1.25% of Risk Assets in the numerator doesn't make sense. Whether it's in the ALLL or our Net Worth, does it matter? If a credit union is over-funded in the ALLL just address the issue directly, why cause unnecessary barriers to RBC?

5. The Risk-Weights are excessive, arbitrary and appear as a casual attempt to cover all types of various risk types by adopting an excessive risk-weight amount. There should be some quantitative basis for these risk-weightings

a. 20% risk for cash, equivalents, and investments less than one year should be a zero risk weight. What risk with near cash requires a 20% inclusion? How about 5%? All investment interest rate issues are covered in ALCO/Interest Rate Risk Policy required by NCUA, so this must be for credit risk(?) I is excessive or duplication as I mentioned earlier.

b. 50% risk for investments 1-3 years. See my investment comment in 5a. Non-delinquent mortgage loans LT 25% of assets should only be around 20% for 80% LTVs. Performing mortgage loans LT 25% of assets might be 15%(?) as credit loss is covered in the ALLL; there is no concentration risk by definition so the interest rate risk should be much lower.

c. 75% risk for investments 3-5 years. See my investment comment in 5a. Performing secured and unsecured consumer loans might be 20%(?). We've already funded for the credit risk in the ALLL. Performing mortgage loans GT 25% and LT 35% of assets might be 25% for moderate concentration risk. Concomitant interest rate risk is more than covered by the 25%.

d. 100% of Corporate credit union non-perpetual capital and 200% for perpetual? The controls implemented by NCUA on corporate credit unions have removed most risk from the corporates.Why does NCUA want to penalize credit unions from making the corporate system more secure? Again, for performing mortgages we've already funded for the credit risk in the ALLL. Performing mortgage loans GT 35% might be 35%(?) for moderate concentration risk. Concomitant interest rate is more than covered by the 35%.

e. 100% risk weighting for Land and building is excessive. Speculative land might be at 50% but a financial institution building would be closer to 25% less depreciation.

f. 100% risk weighting for all MBLs is excessive. Commercial real estate might be max at 50% but should be based on a quantitative appraisal less depreciation.

g. Almost every risk weighting category listed suffers from an excessive assessment that ignores the credit risk already funded for in the ALLL and understates the market value under the worst of circumstances. If interest rate risk is to be included then the impact can be quantitatively assessed by most ALM-Interest Rate systems.

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

Sincerely,

Dennis Flannigan
President/CEO
Great Basin FCU

cc: CCUL