Premier America
CREDIT UNION

April 4, 2014

John M. Merlo
President/CEO

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

RE: Comments on Proposed Rule: Risk-Based Capital – RIN 3133-AD77

Dear Mr. Poliquin:

On behalf of Premier America Credit Union we appreciate the opportunity to comment on the proposed Risk-Based Capital Rule. We serve over 74,000 members, who are primarily residents of communities in the northern Los Angeles County areas of Southern California.

We do not support the proposed Risk-Based Capital Rule. Prompt corrective action has been in place since 1999 and has served the credit union community well. A simple capital ratio is very straight forward and demonstrated its functionality during the great recession of 2008. During the last 15 years the credit union movement has maintained a capital ratio above 10%. Adding a risk-based capital element increases regulatory burden and has unintended consequences. The most significant impact will be an incentivized focus on risk-based capital and its elements, instead of growth in real capital.

In the event that the NCUA chooses to move forward with a risk-based capital regulation we have the following comments and suggested enhancements:

1. Section 702.105 allows the National Credit Union Administration (NCUA) to establish individual credit union minimum capital requirements. The proposed rule allows the NCUA to substitute their judgment and expertise for that of the credit union board. This section should be dropped in its entirety. The purpose of the risk-based capital rule is to provide capital thresholds for the board of directors and management. If the proposed risk based capital levels are subject to individual credit union qualitative assessments by the regulator, then the proposed rule is of little value. The NCUA has ample existing regulatory powers to meet the needs of an engaged regulator without this section.
2. Section 747.2006 allows credit unions that have been directed to establish an individual minimum capital requirement the option to appeal directly to the NCUA. If the NCUA insists on the individual minimum capital requirement, then an independent third party appeals process must be established. The NCUA should not serve as the rule maker, examiner, regulator, expert, substitute thinker for a credit union board, and as the "appeal to" entity.

3. Section 702.104. The proposed regulation allows for an Allowance for Loan and Lease Loss (ALLL) credit of up to 1.25% of total risk assets. Credit unions are noted for their transparency and history of fully reserving for potential loan losses. The proposed regulation incents credit unions to limit their ALLL account to 1.25% of total risk assets because they will not receive a capital credit for ALLL reserves above this limit. The proposed regulation should be amended to allow a credit for the full and Generally Accepted Accounting Practice (GAAP) determined ALLL balance. The commentary from the NCUA associated with the proposed rule notes the ALLL credit of 1.25% is consistent with Basel III, yet, in other areas of the proposed rule the NCUA conservatively deviates from Basel III. The proposed risk-based capital rule should not pick and choose the most restrictive elements of Basel III; rather it should develop a balanced credit union approach.

4. Section 702.104. The National Credit Union Share Insurance Fund (NCUSIF) deposit is a deduction to the numerator in the proposed risk-based capital ratio calculation. The NCUSIF deposit is a valuable asset and is not the property of any other entity. Credit unions are required to maintain a 7% prompt corrective action minimum capital ratio. Banks which use the premium method to fund their deposit insurance have a comparative leverage ratio requirement of 5%. Thru HR1151, credit unions are required to carry a higher capital ratio/leverage ratio largely because of the NCUSIF deposit. Deducting the NCUSIF deposit from the numerator in the proposed risk-based capital computation is akin to double-dipping. The NCUSIF deposit, a valuable asset for every credit union, should not be a deduction in the capital calculation. The NCUSIF deposit should be carried as a 100% or lower risk weighted asset.

5. The proposed risk-based capital rule calls for an 18-month implementation period. Banks have been allowed up to five years to comply with Basel III standards. The implementation period for the proposed rule should be extended to at least 48 months, if adopted.

6. Section 702.104. Table 3 in the draft regulation summary highlights the major types of risk the credit unions face. As noted, these risks include credit, compliance, concentration, interest rate, liquidity, market, operational, reputation, and strategic risk. It appears the proposed regulation was designed to be a one-size fits all regulation. As such, the proposed risk-based capital regulation does not adequately address credit or collateral risk. For example the proposed risk-based capital regulation rewards credit unions with a lower risk weighting for indirect auto loans even though these types of loans are regularly originated at up to 135% of the value of the car. Conversely, the proposed rule punishes credit unions if they have larger mortgage loan portfolios even though underlying mortgages may be secured by a property with a 35% LTV. The proposed regulation does not address the difference in loan quality between a borrower with strong income and a high FICO score and a borrower of more limited means. The proposed risk-based capital regulation should assign lower risk-based capital weightings to loans with strong collateral and strong borrowers, regardless of the loan type.

7. Section 702.104. The proposed three levels of risk weighting for (1) unguaranteed residential real estate first mortgage, (2) other real estate loans, and (3) member business loan portfolio's is punitive. The proposed risk weighting for the above loan categories

place credit unions in uncompetitive positions, which ultimately hurt members, and are simply not realistic weightings for risks associated with these loan types. For the above-noted loan types, lower risk weighting and broader tiers (if any) are needed to improve the proposed regulation effectiveness and to help credit unions remain relevant in the marketplace. Please note Basel III has significantly lower risk weightings for these loan types. The proposed rule offers little explanation or data as to why credit unions, with their history of superior loan origination standards and lower loan losses, are held to unrealistically high capital requirements in order to originate and hold these loans for our members.

8. Section 702.104. Investments in CUSOs carry a proposed risk weighting of 250%. Many credit unions have investments in national CUSOs, such as the CO-OP. Each credit union owns only a small percentage of these organizations and governs these CUSO's through board positions. The proposed risk weighting is too high. Investments in national or NCUA- approved CUSOs should carry a risk rating of 100%. Cooperation and aggregation are hallmarks of the credit union movement and should be recognized in the proposed rule.

9. Section 702.104. Premier America has significant deposits with the Federal Reserve. A 20% risk weighting for these deposits is excessive. Deposits held at the Federal Reserve should have a risk weighting of 0%.

Thank you for considering our views on the proposed Risk-Based Capital Rule.

Sincerely,

John

John M. Merlo
President / CEO

JM/ap