April 23, 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,

Introductory paragraph:

I am writing on behalf of SRI Federal Credit Union, which serves employees of SRI International in Menlo Park, California. We have 3900 Members and $78 million in assets. Following are comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action – Risk-Based Capital.

Capital Ratio Comment:

1. Previously the capital ratio requirement used the maturity term of fixed rate real estate loans to capture the interest rate risk. As a result, credit unions have shifted to variable-rate real estate loans and/or real estate loans that reprice in five or less years. The new approach will penalize these credit unions by applying a flat rate weight based on type of real estate loans. The NCUA justifies these factors based on general assumptions which assume that other real estate loans are more risky than 1st mortgages. In fact, in our case-other real estate loans are Home Equity Lines of Credit (HELOCs) which have lower interest rate risk since they are adjustable loans. The risk is more related to the individual loan, the members credit, and local market conditions. A flat approach just doesn't capture these factors. Placing a risk factor that HELOC loans will cause a reduction in the amount of loans that can be provided to the members.

RECOMMENDATION: Assign a lower factor to other real estate loans (or to HELOCs).

2. A double dip is that an additional weight is placed on unused lines of credit (off balance sheet items). Thus, not only are HELOCs assigned a higher risk factor but the unused portion of the line of credit requires additional reserves. The affect is to cause credit union to close unused lines of credit or to not grant as large of lines at the origination of the loan. Should the member need to increase the line, additional recording fees and other costs would be incurred.

RECOMMENDATION: Drop the off-balance sheet portion additional factor requirements.

3. The new capital requirement does not address underlying problems of how investments are classified. For example, a five-year step bond is classified based on the final date regardless of the nature and timing of the step rates. That is, if a bond steps

up .25% each quarter for five years, it is still treated as a long-term investment even though the nature is closer to a variable bond-which would be classified as a short-term investment.

RECOMMENDATION: Use standard industry average weighted lives (Bloomberg screens) for step bonds-just like the NCUA does for MBS securities.

4. The new regulation treats US Bonds as zero risk. This encourages poor ALM practices by not capturing the inherent interest rate risk in long-term bonds.

RECOMMENDATION: Be consistent! Either assign a risk to US bonds or don't assign higher risks to longer-term non-US securities. After all, the US Government, in effect, is backing 100% of the agency debts (Freddie Mac, Fannie Mae), so why assign additional risk to these securities by term when you don't assign any risk to the government bonds-by term?

5. The NCUA Capital Deposit is set up as a deduction from both the Numerator and the Denominator. The NCUA Capital Deposit is an asset of the credit union-we put the funds on deposit at the NCUA and the funds ARE available in the event of the need for the NCUA to set in to handle financial problems.

RECOMMENDATION:

Do not remove NCUA Capital Deposits from both the Numerator and the Denominator.

This proposal would negatively affect our credit union. My estimate is that it would require us to hold assets at the current level for appropriately three years for capital to increase to acceptable levels. It would also place a damper on certain types of loans, reducing the amount that we would lend.

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

Sincerely,

Steve Bowles
CEO
SRI FCU

cc: CCUL