From: joliver@southbaycu.com
To: _Regulatory Comments
Subject: Comments on Proposed Rule: PCA - Risk-Based Capital; RIN 3133-AD77
Date: Friday, April 25, 2014 3:38:30 PM
Attachments: myLetter.pdf

April 25, 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,

Thank you for the opportunity to comment on the proposed rules regarding Risk Based Capital.

South Bay Credit Union serves the community known as the "south bay" in Southern California. We are a smaller $80 million credit union serving approximately 6,000 members for more than 60 years. Our credit union has prided itself on returning more to members and has traditionally had lower (but well capitalized numbers) and low annual earnings. We are a state chartered, privately insured institution, however, we believe that our voice is just as important. All credit unions are founded on the same basic principles and we believe this proposal will have a negative impact on the industry as a whole.

Yes, we were affected by the great recession. Our capital numbers moved to "adequately capitalized" and bordered on "less than adequately capitalized". Our erosion for capital was simply based on 2 events - the liquidation of Wescorp and the unrealized loss of a frozen pension program. Our own credit portfolio only experienced minor loss - loss that could be handled by our own capital and earnings. And while the current proposal does not negatively impact us -- we believe that there are serious flaws in the proposed risk factors.

Simple mathematical equations mixed with regulatory insight will never work. Risk management is that - management of risk and there is no "one size fits all" approach that will work. Risk based management equations do not work and after 30 years of trying in banking, the consensus is to move to a simple leverage ratio - what we have today.

Look, South Bay felt the pressure when capital was at lower levels and there was so much uncertainty in the economy. SO? That's what we needed to do. We needed to buckle down, save wherever we could and rebuild. Yes, some credit union's did fail...but I would argue, that those who failed, generally, where those that didn't have a strong hold of the options, didn't explore enough scenarios or simply didn't take action fast enough. And for that, our system worked. We replenished the fund and our credit union system is stronger than before.

Risk based capital makes perfect sense. However, the proposal today is fundamentally flawed. The process needs to be more completely thought out, needs to consider competency as well as experience, needs to consider the current reserves required by GAAP and needs to make sense.

Here are some specific observations and suggestions:

- MBL Risk Rating - we do not agree with a blanket rating. Reserves for loans are handled by GAAP, testing by CPAs and should have documentation specifically supporting them. And, with today's focus on more frequent risk review, credit unions reserves fine tuned regularly.

- Mortgage Loans - we do not agree with a blanket rating. As with MBL comment above, reserves are risk weighted already. And, those risk weightings take into consideration loan to values and credit risk.

- Longer term investments - blanket ratings can't work here either. Credit unions buy investments to hold and the investments that we can buy are limited. At any case, credit risk component isn't being considered here and makes no sense.

- CUSO investments - we are a cooperative and with that have a responsibility to invest in other cooperatives.   The suggested risk weighting will discourage investment and makes no sense. If the CUSO is liquidated, you can't lose more than 100% of capital. And again....GAAP addresses asset valuation.

I do not agree with the time line for implementation in any accord. Credit unions need time to adjust and implement new strategies to comply and 18 months is insufficient.   As I mentioned in the opening of this letter, our mission as a not for profit cooperative by its very structure means that any implementation of these new rules will mean the members have to pay...either through lower value, increased fees, or product/services not being implemented or terminated.

I for one, became a part of the credit union industry to serve my members. I think the proposal as drafted is a dis-service to my members. Capital adequacy is a dynamic process, not a static ratio outcome. Every credit union management team monitors performance and adjusts goals periodically, based on judgements about future needs and opportunities. We need ask ourselves how to best invest our capital to best serve our members!

Sincerely,

Jennifer Oliver

President/CEO
South Bay CU

cc: CCUL