April 29, 2014

Mr. Gerard Poliquin
Secretary to the NCUA Board
1775 Duke Street
Alexandria, VA 22314

Dear Mr. Poliquin:

As the representative voice for Rio Grande Valley Credit Union and our 17,000 members, I would like to offer the following comment letter on the recent NCUA proposed Risk Based Capital rule. While our credit union recognizes the need for a well balanced and credit union specific set of capital standards as an alternative to the current net worth standard established by Congress in 1998 that specifies 7% net worth as the standard to be well-capitalized of all credit unions regardless of their individual risk profiles, we have serious concerns about the proposed Risk Based Capital rule that we feel must be addressed or the result could be a less workable capital standard putting the credit union charter at a competitive disadvantage to our competitors. We would like to respectfully address the following concerns and offer possible improvements to the regulation in these specific areas.

When I first reviewed the proposed regulation, my concern was that this does not replace the current statutory minimum net worth standards of 7%, but it supplements it, so of the two, which one would take precedence? What would happen to a credit union that met one but not both of the requirements to be well-capitalized? Why does there need to be two?

My next area of concern would be the weight given to loans – it is a flat percentage, even though on some of the loans we may have collateral and don't understand why those would be rated the same as those that are unsecured. Also mortgage loans are all given the same risk based on the percentage of assets, without any credit given to the credit risk. All of this information should be available off of the call report and readily accessible. Where is credit given if the credit union maintains a low delinquency rate?

The last area of concern for our credit union would be the fact that an examiner would have the discretion to increase the risk based capital requirement for an individual credit union based upon examiner subjective analysis of additional risk. When you open the door to subjective opinions, it makes it extremely difficult for a CEO to manage and plan, especially when you are proposing an 18 month time table for implementation. We feel that to implement something like this with such broad, sweeping changes would require at least 36 months.

While we do agree that some changes need to be made, perhaps you would consider a 9% Risk Based Capital Ratio to be considered well capitalized. At 7% we are already required to be higher than the Basel community bank requirements of 6%. If our loan portfolio is performing well and our charge off rate is below 2% on a five year average, could there be a 50 basis point reduction in each concentration category where we meet that.

Another consideration would be if both the statutory net worth ratio under PCA is above 7% and the regulatory Risk Based Capital ratio under this regulation is above 9.0%, the well-capitalized credit union that exceeds both high standards should receive blanket waiver authority on fixed assets, personal guarantee requirements on business lending and an elongate 18 month exam cycle.

We honestly do not see how this could be implemented properly in 18 months and executed correctly the first time. We would like to see a delayed effective date of December 31, 2017, providing three full years for credit unions to prepare and adjust their balance sheets effectively and with strategic planning. It seems as if we are rushing head on into something that has not be fully explored, and for some credit union could cause dire consequences.

Please let it be known that we do appreciate the work that has gone into this possible regulation thus far and the opportunity for us to comment on this is truly appreciated. We respectfully and strongly encourage you to consider possible improvements to the Risk Based Capital Rule in accordance with our recommendation included in this comment letter. The strength, safety, soundness and long term viability of the credit union industry will be impacted by the capital structure under which we operate in the years and decades to come. It is crucial that any changes to the credit union capital system be appropriate to the risk and balanced with the ability to effectively manage that risk. If I can be a source of any further information about this matter, please do not hesitate to contact me.

Sincerely,

Allyson Morrow, CEO
Rio Grande Valley Credit Union
2910 E Grimes
Harlingen, TX 78550

Sincerely,

David Jones, Board Chair