Dear Secretary of the Board Poliquin,

I am writing on behalf of the Board of Directors and senior management for Fresno County Federal Credit Union. Our credit union, located in Fresno County, California serves over 60 thousand members and has assets of $540 million. We appreciate the opportunity to provide comments to the National Credit Union Administration (NCUA) on the proposed rule, Prompt Corrective Action - Risk-Based Capital.

We do not agree with the proposed regulation to replace the current Risk Based Net Worth method based upon the following areas of concern.

Risk Weights:
The proposed multipliers for the various asset classes are punitive to the credit union industry because they are more restrictive than the bank model and will impede our ability to compete in the marketplace. The following risk weightings are of particular concern:

- Non-delinquent consumer 1st mortgage real estate loans have risk weighting requirements from 50% to 100% as opposed to banks having one risk weighting of 50%.
- Other real estate loans and delinquent real estate loans for credit unions would have risk weightings of 100% to 150% while banks have one risk weighting of 100%.
- Delinquent loans require additional capital requirements at 60 days for credit unions while banks are not impacted until 90 days.

Simply put, first mortgages and second mortgages/home equity loans require 30% and 22% more capital support, respectively under the proposed regulation. The ramification of these differences will impact our credit union's ability to strategically plan the further development and offering of real estate loan products to our membership.

It is apparent that this proposed rule is designed to regulatory manage interest rate risk by using a lower risk weighting requirement of 75% for non-delinquent other loans while banks use a 100% risk weighting. The converse is true for real estate loans as discussed above. This disparity effectively forces the credit union industry reevaluate and possibly curtail real estate loan production while it encourages short-term consumer loans.

The proposed regulation attempts to manage interest rate risk of a credit union's investment portfolio by forcing excess liquidity into short duration securities. The proposed risk weightings for investments are a function of weighted average lives of the securities.

Average-Life	Risk Weighting
• 0-1 Year	20%
• 1-3 Years	50%
• 3-5 Years	75%
• 5-10 Years	150%
• Over 10 Years	200%

Banks base their reserve requirements upon the underlying securitizing agency, GNMA, FNMA or FHLMC. Securities form these GSEs require 20% risk weighting regardless of the average life.

The restrictive nature of the risk weightings for securities effectively requires credit unions to hold five times more capital than the bank model for the same portfolio structure. In addition, a credit union could generate a first mortgage loan with an average life of five years and a risk weighting of 50% based on a real estate loan portfolio of less than 25% of assets. If that loan is sold to Fannie Mae or Freddie Mac, securitized and sold back to the credit union as a government backed investment, the risk weighting would increase to 150%. In actuality the risk associated with this asset has diminished due to the implied guarantee of the investment, not the reverse.

The regulation defining risk weighting for securities gives little flexibility for credit unions to efficiently manage excess liquidity and generate an appropriate level of earnings. This sector of the balance sheet has represented almost 40% of our assets in the past while generating 15% of total income. Constrictive risk weighting on the investment portfolio would have severely limited the ability of management to prudently manage this portfolio for the betterment of the membership and the credit union. From an industry perspective overall credit union earnings will suffer which will ultimately impact our ability to compete, limit capital growth and the ability to expand.

Individual Minimum Capital Requirements (IMCR)
The officials and management of Fresno County Federal Credit Union wish to express their grave concern for the provision in the proposed Risk Based Capital Regulation allowing individual NCUA examiners discretionary supervisory action to impose individual capital requirements on a credit union. Credit unions would be at the mercy of an individual examiner's subjective perspective as it relates to risk, all risks. There is no way to remove subjectivity from a process which rotates examiners every two years and adjusts the examination criteria annually. Credit unions cannot prepare for IMCR since the underlying criteria could be based on unrealistic or overly conservative perceptions that will be different with each examiner. The regulatory body of the NCUA has the necessary tools to address serious concerns identified at an institution. It is not necessary to introduce an arbitrary process which can only elevate the level of friction and generate distrust with the examination.

The concept of risk based capital rule is valid for the credit union industry since levels of risk vary greatly among credit unions based upon business models and/or balance sheet structure. We do agree that risk weighted capital requirements should be addressed but not in this form. The current proposal would be harmful to the mission of Fresno County Federal Credit Union to serve its membership effectively and responsibly. Capital growth would be at the forefront of all decisions, not the membership. Providing superior loan products to our members would become secondary to the regulatory burdens of capital requirements. Using a risk based capital calculator, our credit union's level of capital cushion would be negatively impacted by business strategies that increase real estate or member business loan portfolios. In addition, any attempts to increase our resources dedicated to the underserved groups in our community would be greatly influenced by the potential risk of higher delinquencies. The capital cushion is also negatively impacted if we maintain our current strategies for the investment of excess liquidity which would affect our earnings and lower growth of capital.

The proposed risk based capital rule will change the focus of management to capital growth and the examiner's realm of perceived risks rather than the mission of the credit union to serve its membership.

In our viewpoint risk based capital requirement should more closely align with the banking model and should not include a provision for IMCR.

Thank you for the opportunity to comment on this proposed rule on risk based capital requirements.

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