May 02, 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,

I am writing on behalf of C.A.H.P. Credit Union, which serves the California Highway Patrol as well as most police and sheriff departments' in the state of California (through Peace Officers Research Association of California or PORAC). We have 14,000 Members and $120 million in assets. We appreciate the opportunity to provide these comments to the NCUA.

C.A.H.P. Credit Union is unique: we are a closed-charter credit union serving the CHP and select law enforcement groups and have been operating this way for 45 years. We are not a "one-size-fits-all" credit union nor do we want to be. We know and understand our unique membership and want to continue serving them well while safely and soundly managing and growing the credit union for generations of law enforcement officers to come by managing risk, strategy, and relevance to our membership.

We manage the same risk on which the proposed rule focuses: interest rate risk, concentration risk, credit risk, market risk, and liquidity risk. However, the rule as presented appears to ignore some risk areas or inadequately address others. Specifically, the NCUA Board has expressed concern for interest rates increasing rapidly, or rates swinging sharply, yet these two scenarios are ignored in the arbitrary zero risk-weighting for Treasuries. How is the zero risk-weighting on Treasuries capturing interest rate risk such that credit unions will retain levels of capital that are commensurate with their level of risk? Additionally, even though Treasuries are highly liquid, the losses a credit union would experience if it had to quickly sell them in a rate-rising environment could have a material negative impact on earnings and net worth. From an interest rate risk standpoint, the zero risk-weighting on Treasuries is confusing given that many mortgage-backed securities, including collateralized mortgage obligations, have less interest rate risk in a rate-rising environment than a long-term Treasury.

From a strategic standpoint, we carefully manage our liability structure: grow deposits (liabilities) too quickly and net worth suffers; grow loans too quickly and liquidity suffers. The NCUA Board does not address liability management in the proposed rule. How will the NCUA "ensure that credit unions retain levels of capital that are commensurate with their level of risk"? We believe it is commonly understood that interest rate risk and liquidity risk are influenced by what is happening with the liabilities of the credit union. By ignoring the liability structure, this proposed rule implies that the cost of funds is not an important component in managing interest rate risk.

From a relevancy standpoint, our credit union has focused on consumer loans, which served us well when the real estate bubble burst in California. Our portfolio was not heavily burdened with long-term, low rate mortgage loans. We have a well-underwritten, well-managed vehicle and unsecured loan portfolio that is effectively balanced against our liabilities. However, deposit risk and risk mitigation capabilities cannot be identified by looking at only the label of a deposit. Additionally, credit risk is not the same for every type of loan. How did the NCUA Board determine that, after factoring in interest rate, credit, and liquidity risk, a non-delinquent "D" paper unsecured credit card loan of $25,000 at 1.99%, a non-delinquent "A" paper auto loan of $25,000 at 1.99% and a non-delinquent 30-year fixed-rate mortgage of $150,000 at 1.99% all have the same level of risk? If credit unions are expected to use the same risk-weighting regardless of internal processes, controls, or relevancy to their membership, where is the incentive for credit unions to do what is best for their members' needs while maintaining a competitive edge?

The NCUA Board has stated in several documents that a "one-size-fits-all" approach is not prudent yet applying arbitrary risk-weightings for capital requirements, as this rule proposes, is just that. We ask that the NCUA Board abandon the entire proposed rule and allow the current risk-based net worth requirement structure to remain in place. The current structure is limited in scope and allows well-run credit unions to remain relevant and viable.

From a ripple effect standpoint, we are additionally concerned how this rule will affect not only state-chartered and federally insured, but also state-chartered, privately insured credit unions such as C.A.H.P. Credit Union. Our experience with state examiners is that some examiners may not be as experienced and familiar with risk-based calculations. Those individuals will look to the NCUA for guidance. Since the NCUA has not fully explained the reasoning behind these proposed risk ratings, a less seasoned state examiner will add yet another layer of complexity and arbitrariness to this calculation.

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

Sincerely,

Brad Houle
President
C.A.H.P. CU

cc: CCUL