Altura
CREDIT UNION™

May 12, 2014

Filed via: regcomments@ncua.gov

Gerald Poliquin, Secretary to the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Proposed Rule – Prompt Corrective Action – Risk-Based Capital (RIN 3133-AD77)

Dear Mr. Poliquin:

On behalf of Altura Credit Union *(#62799)*, I appreciate the opportunity to comment on NCUA's proposed rulemaking on Prompt Corrective Action (PCA) and risk-based capital. Altura Credit Union is a $730 million federally-insured, state-licensed credit union based in Riverside, California. We proudly serve our 85,000 Members and the communities in which they reside, and we have a long history of doing the job for which we were chartered.

Altura ended 2013, under the current regulation, with a Well Capitalized designation, reporting a Net Worth ratio of 11.63%. Under the proposed regulation, Altura's Risk-Based, Net Worth ratio is estimated to be 16.74%, and well above the proposed 10.5% Risk-Based Capital Ratio requirement for a "well-capitalized" designation.

Summary of Altura's Position

While we recognize the current PCA and capital requirements may warrant updating – and we acknowledge the challenges involved in developing a system that fairly and accurately reflects various risks for all credit unions – we cannot support the rule as currently proposed. Beyond the initial issue of whether such a significant change is needed, or whether the NCUA has the statutory authority under the Federal Credit Union Act (FCUA) to implement such a change, we believe there are several aspects of the proposal that could lead to significant negative and unintended consequences for credit unions. In addition, we find the short period for implementing the proposed rule to be unreasonable and excessively burdensome. We will address our concerns in the balance of this letter.

Weak Justification and Authority for the Proposal

We believe the NCUA has not sufficiently demonstrated the need for the proposed rulemaking, or that the authority granted to the agency under the FCUA is sufficient to make such changes to the Prompt Corrective Action rule (Part 702). While the FDIC became technically insolvent during each of the last two financial crises, the National Credit Union Share Insurance Fund (NCUSIF) has performed very well under the current PCA rules. This suggests the PCA system protecting the share insurance fund does not need to be additionally strengthened and calls into question the necessity of the proposed changes. Furthermore, as Congress has not passed legislation requiring such changes, we are forced to raise the question: **Why is the NCUA pursuing this rule at this time?**

The proposed rule would require credit unions to raise billions of dollars in capital in order to maintain the same proportion of a capital buffer they currently manage. Because most credit unions do not have access to supplemental forms of capital, raising such an amount through retained earnings alone would be challenging. We believe this is an issue on which Congress should opine.

In addition, the proposed rule appears, in several respects, to be inconsistent with NCUA's authority and responsibility under the law. For example, the Federal Credit Union Act (FCUA) requires NCUA to establish a risk-based capital system to take into account any material risks for which the net worth ratio, at the adequately capitalized level, may not provide adequate protection. However, the law does not direct NCUA to set or modify the standard to the "well capitalized" level.

Further, NCUA is required under the FCUA to take into consideration the unique structure of credit unions when implementing its risk-based net worth rule. The NCUA has not fulfilled this responsibility. Since the risk-weightings in the proposed rule are more stringent than the Basel risk-weightings for small banks, it is self-evident the proposed rule has not adequately considered the uniqueness of credit unions. If anything, the structure and performance of credit unions would suggest the assigned risk weights should be less stringent.

Unreasonable Proposed Risk Weightings

We also have serious concerns as to whether several of the proposed risk weighting actually align to the real risk in the system. The proposed rule assigns rigid risk weights to some areas that, when properly examined, represent much less risk than the assigned risk weights. For example:

- A 100% risk-weighting of the total principal amount of loans outstanding to credit union service organizations (CUSOs)
- A 250% risk-weighting of total investments in credit union service organizations (CUSOs)
- A 1250% risk-weighting for certain asset-backed investments

These weights appear heavy-handed, arbitrary, and are not supported by empirical data. We believe that, rather than treating all CUSOs as pariahs on the credit union system, the NCUA should utilize its existing supervisory authority to address any specific risky activity it has identified at a particular CUSO. When it comes to CUSOs, one size definitely does not fit all.

Finally, we are very concerned by the NCUA's attempt to increase its authority to impose additional capital requirements on credit unions based upon the subjective opinion of individual examiners. In this post-financial crisis environment, the NCUA and other regulators have become much more risk-averse and much more innovation-averse. We believe that providing field examiners with the ability/power to halt and/or punish innovation based upon unproven or misunderstood risks, is unreasonable and counterproductive to the industry's continued growth and development

Unintended Consequences: Constricted Lending and Slow Credit Union Growth

- Raising capital expectations will slow credit union growth
- Loan growth – CUs will become more risk-averse in their consumer portolio (e.g., won't explore lower FICOs

Unreasonable Implementation Period

We believe the proposed transition period for implementation of a rule of this magnitude, is far too short. Whatever form the risk-based capital rule may take, credit unions need much more time than the proposed eighteen (18) months. Many credit unions may wish to alter their balance sheet composition in response to the new rule. Under Basel III, banks were able to take advantage of a multi-year development and implementation process. Credit unions should be accorded nothing less.

In closing, I appreciate your consideration of our comments. We urge the NCUA to revoke the proposed rule and to re-issue a new rule that incorporates the fair, common-sense recommendations contained in this letter and the many comments you will receive from other credit unions and the trade associations. We also urge the NCUA to seize this opportunity to craft a more reasonable and prudent rule; one that gives credit unions the flexibility and the opportunity to address their Members' needs as they see fit, not as a "one-size-fits-all" approach dictates.

With regards,

Mark Hawkins
President/CEO
Altura Credit Union
(951)571-5300