

**From:** [Ann Sebastian](#)  
**To:** [Regulatory Comments](#)  
**Subject:** Prompt Corrective Action Risk-Based Capital Comment Letter  
**Date:** Monday, May 19, 2014 2:56:37 PM

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Dear Secretary of the Board Poliquin,

I am writing on behalf of Star One Credit Union. We have over \$90k Members and \$6.7B in assets. Star One Credit Union appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action - Risk-Based Capital. Below are our concerns:

#### Risk-Weighted Categories

- Unsecured loans are weighted at 75% and private student loans are weighted at 100%; both loan types are unsecured so heavier weighting on student loans seems wrong.
- First mortgage real estate (RE1) loans are weighted differently based upon the amount of these loans as a percent of assets. This seems like the proposal is combining risk weighted capital analysis with concentration risk analysis; this seems inappropriate. Also the proposal chooses to not weight the RE1 loans on their loan to value (which would be mixing risk based and credit analysis) which would be a more appropriate choice.
- Other real estate-secured loans (RE2) are weighted differently based upon the amount of these loans as a percent of assets. This seems like the proposal is combining risk weighted capital analysis with concentration risk analysis; this seems inappropriate. Also the proposal chooses to not weight the RE2 loans on their loan to value (which would be mixing risk based and credit analysis) which would be a more appropriate choice. Additionally, this means that the RE2 loans are weighted more than unsecured loans; this seems wrong.
- The proposal weights investments based upon the average life. This seems like the proposal is combining risk weighted capital analysis with interest rate risk analysis; this seems inappropriate.

#### Delinquent loans

The proposal places a higher risk weighting on delinquent loans. While well intentioned, we think the methodology may need revision. If a CU accounts for an expected loss by increasing their allowance for loan losses (ALL) then the higher weighting may be 'double counting' the expected loss. While the ALL is to be included in the numerator, placing a 1.25% of risk assets limit means 'double counting' may occur.

#### Individual Minimum Capital Requirements (IMCR)

Section 747.2006 proposes imposing Individual Minimum Capital Requirements (IMCR). We do not like this part of the proposal. The risk based capital proposal starts out with mathematical calculations for required capital then near the end of the 191 page proposal is this section that makes the requirement arbitrary and subjective.

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

Sincerely,

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