LBS FINANCIAL
Credit Union
Founded by Long Beach School Employees in 1935

May 12, 2014

MAY19'14 PM 1:50 BOARD

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

RE: Comments on Proposed Rule- Risk Based Capital; RIN 3133-AD77

Dear Mr. Poliquin,

This comment letter is written on behalf of LBS Financial Credit Union with regards to the National Credit Union Administration's (NCUA) proposed risk-based capital (RBC) rule. LBS Financial Credit Union has approximately 120,000 members, $ 1.1 billion in total assets, and a current net capital ratio of 13.4%. Even though our new proposed risk-based capital is over 22% we still feel that there are many changes that need to be made to this new proposed rule. We agree that capital requirement changes are necessary to more accurately reflect a credit union's risk on their balance sheet but we feel that NCUA has overreached in some areas as described below. Generally speaking we believe that NCUA should strongly consider aligning their final rule more in alignment with the Basel III guidelines for community banks.

Recommended Changes

- Our greatest concern is that the proposal allows NCUA to establish individual minimum capital requirements for each credit union that may be greater than the risk based capital rule. This allows an examination team too much latitude and subjectivity in creating additional capital requirements even when the credit union is already considered well-capitalized under both the current PCA and the new RBC rule. It is our understanding that the proposed risk based capital rule is intended to already address most major risk areas for the protection of all credit unions. Lastly, the RBC proposal allows for an appeals process that we believe would not be independent enough as NCUA would be the examiner, regulator, and ultimate decision-maker or ruler of the appeal.

- We do not understand why NCUA was so much more restrictive in the weighting with regards to the maturity of credit union investments compared to Basel III for banks. For example, NCUA has proposed a risk weighting for investments with a maturity of 1 to 3 years of 50% while Basel III has a 20% risk weighting. Even worse, NCUA has a risk weighting of 150% for investments of 5 to 10 years while Basel III has the same 20% weighting. While we believe that longer term investments carry potentially more interest-rate risk exposure we feel NCUA should more closely align itself with the Basel III risk weighting standards in this area. Or in the alternative, at least reduce the proposed NCUA risk weighting percentages by at least in half.

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- Similarly, we are perplexed as to why NCUA has a different risk weighting standard for 1st mortgage loans when compared to Basel III standards for banks. For a credit union making 80% loan-to-value 1st mortgages with strict underwriting guidelines for credit scores and debt-to-income ratios why should the next mortgage loan they make above 25% of total assets be subject to a risk weighting of 75% and 100% beyond 35% of total assets when Basel III for banks is at a 50% maximum? Furthermore, as I recall during the Great Recession a few credit unions had more financial and charge-off issues with regards to the riskier 2nd mortgages and HELOC's when compared to 1st mortgages. So, please consider bringing the maximum risk weighting more in line with Basel II standards at 25% maximum or in the alternative perhaps consider a slightly higher risk weighting for 1st mortgages at only above 50% of total assets.

- Lastly, we strongly feel that the proposed CUSO investment risk weighting of 250% should be at 100%. First of all, we understand Basel III for banks has a risk weighting of 100%. Secondly, we should not have to carry a higher risk weighting for capital standards than the dollar value we have for the CUSO investment on our balance sheet. Lastly, the proposed RBC weighting for CUSO investments seems to wrongly imply that they are riskier investments and yet there are many CUSO success stories in our credit union movement/industry that would suggest otherwise. Some of the largest CUSO's such as CO-OP Financial Services and Credit Union Direct Lending (CUDL) are extremely successful and help make credit unions more relevant to their members. Our members benefit greatly on a regular basis as a result of these two CUSO's.

In summary, while we agree that some changes to the current capital standards are warranted we believe that NCUA needs to make some significant revisions to the proposed RBC rules before making it final. I compliment NCUA for taking the time to listen to credit unions with regards to this proposed rule and now urge them to make changes in accordance with what they are hearing. In my more than thirty-five years of working in the credit union movement/industry I have rarely seen a proposed rule create so much discussion, interest, and even angst for credit unions. So, it is very important that the final rule is carefully crafted in order to balance both the important goal of protecting credit unions and the industry but also allowing them the flexibility to grow and remain relevant in their member's financial lives without the burden of too restrictive capital requirements.

I want to thank the NCUA in advance for taking the time to read this letter and consider our recommended changes above in creating the final risk-based capital rule.

Sincerely,

Jeffrey A. Napper

Jeffrey A. Napper
President/CEO

cc: Credit Union National Association
California Credit Union League