MISSION
FEDERAL CREDIT UNION

May 15, 2014

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

Re: Comments on Notice of Proposed Rulemaking for Risk Based Capital

Dear Mr. Poliquin:

Thank you for the opportunity to comment on the NCUA's proposed rule on risk-based capital. While the comment period seems unnecessarily short, and there appear to be components of the rule that are highly problematic at this stage, it is only through joint dialogue and cooperation between the NCUA and credit unions that we can craft a rule that allows credit unions enough latitude to operate successfully, while at the same time allowing the NCUA to operate the insurance fund safely.

First, let me state that, as a $2.5 billion, well-capitalized credit union, Mission Fed is very much in favor of more appropriately-sized capital requirements for credit unions. *This would include a well thought-out risk-based approach.* However, this is a very important issue that needs to be thoroughly vetted prior to implementation as it will affect many, many credit unions negatively in its current form. This proposed rule is one of the most important rules that credit unions have been asked to consider in recent times, and the appropriate length of the comment period should be one that allows the majority of credit unions to first digest the proposed rule and then consider the many ramifications contained therein; 120 days is not sufficient for this purpose.

In addition, there does not appear to be a pressing need for RBC at this time, for several reasons. First, in aggregate, the credit union industry is very well capitalized - over 10%. This high capital level helped credit unions avoid many of the problems that banks had in the recent economic downturn. Second, the number of troubled credit unions in the industry has fallen dramatically from its high point, an additional sign of industry strength. And finally, there has been very positive news regarding the Temporary Corporate Credit Union Stabilization Fund, where there are no future assessments anticipated at this time. In short, there does not appear to be a need to act hastily in modifying one of the most important elements of our industry.

With respect to the proposed rule itself, the relative risk weightings do not appear to reflect the actual risks of the underlying assets and, in some cases, appear to be overly broad and heavy handed. In other cases, the risk weighting appears to be in reaction to the last economic downturn, which may seem appropriate until it is considered how many additional business controls have been developed since that time (this is particularly true as it relates to mortgage lending).

EXECUTIVE
P.O. Box 919023 San Diego CA 92191-9023
858.524.2850 | 800.500.6328 | fax 858.546.7637
MissionFed.com

Credit Union Service Organizations (CUSO's) are an important element in helping credit unions 1) meet the needs of their members, and 2) diversifying their earnings stream. CUSO's also vary quite a bit in which services they provide and to whom they provide them (e.g., credit union members or credit unions themselves). Having said this, a blanket risk weighting of 250% for all CUSO's, irrespective of their differences, does not seem to be the best way to optimally capture the risk of these entities. In addition, the 250% level is far too high of a threshold for an area that can provide substantial earnings diversification for both individual credit unions and the industry as a whole, diversification that can more naturally stabilize the industry earnings stream. Also, at a 250% risk-weighting, many credit unions will find it too difficult to maintain a CUSO and will, thus, miss out on the benefits that a CUSO can provide. Finally, as a side note, the 250% risk weighting will likely *reduce the value of existing CUSO's materially* as it will raise the requirements to purchase a CUSO by forcing interested credit unions to put more capital aside.

At 150% for longer-term securities, the risk weighting here seems unsupportable. By regulation, credit unions are prohibited from purchasing securities with a great deal of credit risk, so the high risk weighting must be in response to the interest rate risk (IRR) that longer-term securities contain. However, all credit unions are restricted at the balance sheet level from taking on undue IRR and *this is monitored very closely by the NCUA examiners*. It is also at the balance sheet level where any mitigants to IRR, such as the recently approved derivatives which would reduce total IRR exposure, can be observed.

By further restraining credit unions' abilities to invest in safe and higher yielding securities, many credit unions will find their profitability shrinking. Measuring and monitoring IRR at the balance sheet level is a vastly superior method to controlling interest rate risk and, as a result, any risk weighting for longer-term securities is unnecessary.

In summary, the credit union industry is in a very strong position today, and the future looks bright, making it a great time to develop new capital standards in a well thought-out, methodical fashion that will ensure that all parties have an opportunity to weigh in on what is certain to be a major shift in the industry.

Regards,

Ron Araujo
Chief Financial Officer
Mission Federal Credit Union