May 19, 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,

On behalf of Star One Credit Union, I appreciate the opportunity to comment on NCUA's proposed Rule: PCA-Risk Based Capital.

By way of background, Star One is a state chartered federally insured CU in Sunnyvale, California serving the Santa Clara County community and various employer groups. We have 91,000 members, $6.6 billion in assets and $4.0 billion of insured savings.

I commend NCUA for listening to credit unions concerns about the risk based capital proposal. I offer the following comments for the proposed rule.

Individual Minimum Capital Requirements (IMCR)

Section 747.2006 proposes imposing Individual Minimum Capital Requirements (IMCR). I do not like this part of the proposal. The risk based capital proposal starts out with mathematical calculations for required capital then near the very end of the proposal is this section that makes the requirement arbitrary and subjective. This section should be removed from the proposed regulation,

Risk-Weighted Categories

- The proposal weights several categories of assets (RE1 loans and investments, for example) based on their percentage of total assets (for real estate loans) or their average life (for some investments). CUs are charged with having adequate policies and procedures for managing interest rate risk (IRR). Making interest rate risk a "jury rigged" component of this proposal is wrong. These weightings will not assist CUs in managing interest rate risk – mainly because the proposal ignores liabilities. A CU could have all of their RE1 loans and all of their investments perfectly matched maturity for maturity, but this proposal would not notice the matching. I would expect that a risk based capital system would be based on credit unions' "portfolios of assets and liabilities". The rule by ignoring liabilities would perversely punish CUs that manage their interest rate risk and reward CUs that have not managed their IRR.

- First mortgage real estate (RE1) loans are weighted differently based upon the percentage of these loans as a percent of assets. It seems like the proposal is combining interest rate risk 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.

- The NCUSIF Capitalization Deposit is treated as a deduction from capital. This means the proposal is stating that the Deposit has no real value. This goes against GAAP (generally accepted accounting principles). NCUA wants CUs to count the deposit as an asset for their financial reports but not to count it as capital for this proposal. It should be an assets (for financials) and not deducted for risk based capital.

- The proposal in many instances seeks to subject CU assets to more required capital than required by bank regulators (CU RE1 loans over 25% of assets, CU other RE loans over 10% of assets, and CU member business loans over 15% of assets for example). Historically CU loans have performed better than similar bank loans, so it should be that CU loans are treated more favorably. The harsher ranking for CU assets will place them at a competitive disadvantage to banks – in spite of CUs better historic performance.

Investments in CUSOs

The proposal weights CUSO investments at 250%. The weight should not be more than 100%.

Time frame to Implement

The proposal gives CUS 18 months to comply with the proposal while banks are given up to 9 years.

In Summary

The rule would assess higher levels of capital through a variety of risk-weighting measures more stringent than those applied to banks. The risk weights seem punitive and inconsistent. There is virtually no margin for considering the credit unions' own asset-liability measures. The rule would override board and management judgment as to what constitutes adequate capital. It's a rule that has not been created for the benefit of the members. A result of the rule may mean members will pay more (through lower savings returns, higher loan rates and higher fees).

Sincerely,

Rick Heldebrant
President and CEO
Star One CU

cc: CCUL