May 20, 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,

Orange County's Credit Union (OCCU) is a California state charted credit union serving both residents and those employed within Orange County. We have a membership base of 88,000 and assets of $1.1 billion. We thank the National Credit Union Administration (NCUA) for the opportunity to comment on its proposed rule, Prompt Corrective Action – Risk Based Capital (RBC).

Conceptually we support RBC for credit unions and commend the NCUA for trying to modernize capital standards. However, we feel strongly that the proposed regulation is flawed on multiple fronts and would, over the long-term, negatively impact our credit union's ability to effectively serve our members. Concerns we have with the proposal are:

1) Risk weightings for some asset classifications are more onerous and restrictive than Basel III is for community banks. This puts OCCU at a competitive disadvantage. That is further compounded by our inability to raise supplemental capital to meet capital ratio requirements. We also feel using higher risk weights on long-term assets to deal with interest rate risk (IRR) is misleading without taking into consideration the liability side of the balance sheet.

Recommendation: NCUA modify the risk weightings so that they are in parity with the Basel III weightings for community banks. If the NCUA wishes to incorporate IRR into the regulation, consideration of the entire balance sheet should be taken into account.

2) OCCU is very active in mortgage and small business loans. Our conservative underwriting over the years has led to mortgage and small business portfolios consisting of high quality and low risk loans. These two loan products are very beneficial to our membership and to the credit union. Our data shows that members who originated their mortgage loans(s) with us tend to have more relationships with us and tend to be more profitable members. With respect to our small business portfolio, it is a very profitable segment of our balance sheet.

The proposed capital requirements for mortgage and small business loans increase as their percent of assets increase while Basel III risk weightings remain constant irrespective of concentration levels. This puts us at a competitive disadvantage. Additionally, the proposed regulation lumps all mortgage types under one grouping. We feel adjustable rate mortgages and shorter maturity fixed rate mortgages should be taken into consideration and have lower risk ratings.

Recommendation: Risk ratings for mortgages and small business loans be capped at 100% (provides parity with Basel III) and consideration be given to having more than one mortgage group asset classification (i.e., longer-term fixed rate mortgages and adjustable/shorter maturity term groupings).

3) Due to the Great Recession, we experienced a significant decline in our loan to asset ratio. With the demise of the three corporate FCU's we belonged to, our investment portfolio now has a higher concentration in U.S. Government Sponsored Agency securities. The WAL of our current Government Agency CMO/MBS portfolio falls into the 3 years to less than or equal to 5 years WAL range. Under the proposed regulation, this WAL range has a risk weighting of 75%, compared to the Basel III risk weighting of only 20% for small community banks. Once again, this would put OCCU at a significant disadvantage.

Recommendation: Risk weightings for all investment classifications are set at the same levels per the Basel III risk weightings.

4) The proposed regulation limits the allowance for loan and lease losses (ALLL) credit in the RBC ratio numerator to 1.25% of risk assets. If the FASB's proposed guidance on the ALLL is implemented, which most likely will significantly increase reserve requirements, we believe that more of this required allowance should count towards capital.

Recommendation: The final RBC regulation includes language stating that the NCUA will consider increasing the limit above 1.25% if the proposed FASB guidance is adopted.

5) Giving an NCUA examiner the authority to require even higher capital on a case-by-case basis is a concept we are not comfortable with.

Recommendation: Eliminate this language from the regulation. In the absence of elimination, there should be language establishing an independent third-party to mediate any appeal between a credit union and the NCUA.

6) The proposed regulation gives credit unions only 18 months to comply once the final regulation is issued. We feel this is a very short period of time for us to potentially have to restructure our balance sheet without negatively impacting our membership. It is our understanding that banks have up to 9 years to fully implement Basel III.

Recommendation: Extend the implementation period to a time period similar to what community banks have, or at a minimum, extend the period to at least 5 years.

Under the proposed RBC regulations, OCCU would currently be a well-capitalized credit union with our RBC Ratio being at 13.66%, but our capital cushion would shrink by over $4 million causing a -37 basis point change in our cushion over well capitalized levels. Over time, the excessive risk weightings, in addition to no access to supplemental capital, may limit our ability to offer high member demand loan products, in particular mortgages and small business loans. That presents a very serious concern for OCCU.

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

Sincerely,

Greg Krause
SVP/CFO
Orange County's CU

cc: CCUL