OCEANSIDE CHRISTOPHER
THE CATHOLIC CREDIT UNION

May 14, 2014

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

Re: Comments on Proposed Rule: Prompt Corrective Action – Risk Based Capital

Dear Mr. Poliquin:

Thank you for the opportunity to comment on the Proposed Rule on Risk Based Capital. Oceanside Christopher is a $280 Million Federal Credit Union serving 13,000 Catholic members and organizations. We support NCUA's efforts to develop a risk based capital requirement that appropriately measures meaningful risks in order to ensure the safety and soundness of the Credit Union industry. We respectfully ask NCUA to consider the following comments on the Proposed Risk Based Capital rule:

1. The Federal Credit Union Act requires NCUA's Risk Based Capital (RBC) rules to be comparable to that of banks. The proposed RBC rules vary significantly from the BASEL 3 requirements for banks. Some Examples:

    a. BASEL 3 (Community Banks <$15 Billion in Assets) weights 1 to 4 Family Mortgage Loans at 50%. NCUA's RBC proposal weights the same loans based on a percentage of assets – up to 100% if they equate to more than 35% of assets. This NCUA risk weight is double that of the rule applied to banks and certainly not comparable.

    b. BASEL 3 risk weights Other Real Estate Loans at 100% while NCUA's RBC proposal applies the same risk weighting only if the loans account for <10% of total assets. When they account for > 20% of total assets, the risk weighting is 150%. Again, NCUA's risk weighting is not comparable to that of banks.

    c. BASEL 3 Risk weights for investments are largely based on credit risk while NCUA's risk weights for investments are only based on interest rate risk. For

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example, under BASEL 3 all Agency bonds have a 20% risk weighting while the NCUA proposed risk weight is only associated with the term of the investment. As a result, a six year Agency bond with an implied government guarantee would have a 150% risk weighting under the NCUA proposed RBC rule. A 10 year agency bond would have the same 200% risk weighting under NCUA's rules as a "below investment grade" investment under BASEL 3. Investment risk weights under NCUA's proposed RBC rules are not comparable to BASEL 3.

2. The Federal Credit Union Act states that for complex Credit Unions, the risked based net worth requirement will be based on the portfolios of assets AND liabilities. The current and proposed risk based capital rules ignore the liability side of the balance sheet where a significant portion of asset side risk is mitigated. This is a direct contradiction to the Federal Credit Union Act.

3. The proposed RBC rule gives a zero percent risk weighting to U.S. Government obligations directly and unconditionally guaranteed by the full faith and credit of the U.S. Government including U.S. Treasury bills, notes, bonds, zero coupon bonds and STRIPS. The proposed rule is silent on GNMA and SBA investments which are also fully guaranteed by the US Government. The final rule must be clear on these investment types – similar to BASEL 3.

4. The proposed capital rule reduces total capital by the NCUSIF deposit amount when calculating the RBC ratio. This implies that the NCUSIF deposit has no value and should be expensed. While the proposal indicates that this does not alter the current accounting treatment of the NCUSIF deposit asset, it certainly brings into question the value of that asset and could cause an unintended accounting treatment rule change. NCUA does not set the Generally Accepted Accounting Principles that most credit unions must adhere on Call Reports and Financial Statements.

5. The proposed loan risk weights encourage increased credit risk. While there are several areas of concern in the proposed loan risk weights, the most egregious is related to member mortgage loan assets vs. mortgage backed securities. For example, non-delinquent first mortgages < 25% of assets have a 50% risk weighting. If those same mortgages were securitized with a GSE and re- purchased in the form of an investment, they would have a much higher risk weighting – either 150% or 200% dependent on the duration of the mortgage backed security pool.

   Non delinquent consumer loans including credit cards, personal loans and unsecured lines of credit have a 75% risk weighting under the new rule compared to a home equity loan that would have a risk weighting between 100% and 150% dependent on the total of all such loans as a percentage of assets. This encourages unsecured lending over secured lending and could have the unintended consequence of increased credit losses in the future.

6. Investment risk weights in the proposal are only based on duration with no consideration for credit quality. This is an incentive to invest in more risky, but shorter duration investments. Furthermore the proposed rule does not consider the liability side of the balance sheet where asset duration risk is mitigated. Evaluating investment risk on interest rates alone is dangerous. How common is it for a credit union to fail because of interest rate risk?

7. The proposed RBC rule gives an NCUA examiner the discretion to increase RBC requirements. The proposed rule also states that only the NCUA Board can reclassify a credit union and that it cannot delegate that authority. The proposed rule is in contradiction to itself.

   Examiners should not have the ability to require increased capital. As part of the normal examination process, there can be a difference of opinion between an examiner and management. It is healthy to discuss and analyze the difference of opinion; however, giving an examiner the power to increase capital requirements puts Credit Unions at a significant disadvantage. We believe that the power to adjust capital requirements should rest only with the NCUA Board.

8. The proposed rule includes an implementation time frame of 18 months from when the final rule takes effect. Banks have had more than five years to implement BASEL 3. It would take more than 18 months to SAFELY re-position a credit union's balance sheet and build capital to avoid a decrease in capital rating. Credit Unions can only raise capital through earnings and as a result, increasing capital in such a short period of time would have a negative impact on the members that make OCFCU successful. It is illogical to expect a credit union to comply in such a short period of time.

9. NCUA has published the proposed RBC calculator on its website since February. Since the rule is only in proposal status, it should only be accessible through the private NCUA Call Report logon portal. For credit unions that are projected to have a decline in capital rating, it would make more sense to have the calculator private until such time that the regulation is re-written and implemented. This is an unnecessary reputation risk that is based on a proposed rule that will hopefully be re-written and provide for more implementation time.

In conclusion, OCFCU feels strongly that the proposed RBC rule will hinder our ability to serve members. The proposed RBC rule is a contradiction to the Federal Credit Union Act in that it is not comparable to the BASEL 3 rule for banks and it does not consider the liability side of the balance sheet. It will have numerous unintended consequences such as adding credit risk to the balance sheet. The new rule will limit credit union growth and force credit unions to explore converting to a bank charter.

We appreciate the opportunity to comment on the proposed RBC rule and remain confident that the NCUA will consider the concerns raised by all credit unions when amending the proposed rule.

Sincerely,

Lisa Mingoia

Lisa Mingoia
Chief Financial Officer