

May 19, 2014

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

Sent via email: [regcomments@ncua.gov](mailto:regcomments@ncua.gov)

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

Dr. Mr. Poliquin:

On behalf of CoastHills Federal Credit Union, I would like to commend the Board for re-evaluation of the risk-based capital requirements for Credit Unions. However, I have concerns with several aspects of the proposed regulation, summarized below.

1. **Legal Authority.** Several arguments have been set forth in the industry questioning whether NCUA has legal authority to implement risk-based capital in the proposed manner. In general, this should be carefully evaluated so that whatever is implemented provides clarity in the industry, not the basis for protracted litigation. In general, it appears the NCUA is seeking broader application of the risk-based requirements than intended by Congress. This intent is evident from the new definition of complex credit union as “all credit unions with quarter end assets over \$50 million.”
2. **Departure from Industry Standards.** Congress wisely chose to require a higher level of capitalization for credit unions than banks, given the more limited ability of credit unions in raising capital. NCUA seems unsatisfied with this statutory buffer and is seeking to implement risk-based capital standards that go well beyond the generally accepted Basel standards. It is far from clear that this approach is warranted and perhaps not legally defensible. In some segments of the requirements, the logic is particularly fuzzy; this is especially so where capital measures are effectively penalized based on asset duration, with no consideration given to possible mitigation through liability duration.
3. **Confusion of Entity vs. System Risk.** The last several years have emphasized that some assets we hold are more susceptible to systemic risk than others. It is reasonable to consider this in the risk-weighting of assets, and this is embodied to some degree in Basel standards. An example of where the reasoning behind the proposed regulation appears confused is in the treatment of the NCUA Share Insurance Fund Deposit, compared to a credit union’s possible capital investment in a corporate credit union. Many credit unions suffered a permanent loss of several million dollars of capital contributed their corporate credit union, but ultimately the value of our Share Insurance

Fund Deposits has remained intact. Counter intuitively, the proposed regulation deems the Share Insurance Fund Deposits worthless, while allowing capital at risk in corporate credit unions to be treated as assets. Underlying this paradox seems to be confusion of Entity Risk and System Risk. For the risk-based capital system to be defensible and generally accepted, this specific issue and the underlying reasoning should be more thoroughly vetted, then re-applied to a better proposed regulation.

I would be pleased to further discuss this with NCUA staff or the Board, if desired.

Sincerely,

Marty Chatham  
Senior Vice President & Chief Financial Officer