May 22, 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,

I am writing on behalf of Lassen County Federal Credit Union], which serves Lassen County. We have 5,106 Members and approximately 60 Million in assets. Lassen County Federal Credit Union appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action – Risk-Based Capital.

I do not believe the proposed rule is necessary in the form it is currently written. I fully understand the need to evaluate risk within our credit union products and services, however, this regulation will restrict our ability for future growth and in some cases very subjective.

1. Risk weighting for some asset classifications are more onerous and restrictive than Basel III is for community banks. This puts LCFCU at a competitive disadvantage. 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 weighting so that they are more in line 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. Increasing the second mortgage portfolio is much stronger asset to hold for various reasons including increased cash flows and turnover of the loans during rising rate environments, HELOC's have zero IRR by repricing either monthly or quarterly. Yet in the proposal, the weightings are 100 percent to 200 percent higher.

Recommendation: Consider all real estate loans at the same weights by eliminating the concentration and maturity levels placed in the proposal. Over the past few year other regulations have been developed requiring analysis of the concentration levels and a strong ALM program, by attempting to integrate multiple risks into one measurement the results are uncertain and there will be unintended consequences.

3. During the economic down turn, we experienced a significant decline in our loan to asset ratio. Forcing us to invest what we couldn't loan out. Our investment portfolio now has a higher concentration in U.S. Government Sponsored Agency securities. The WAL on our current Government Agency CMO/MBS portfolio falls into the 3 year to less than 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 LCFCU at a significant disadvantage.

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

4. The proposed rule states, "rising levels of delinquent loans are an indicator of increased risk." They reflect the impaired credit quality of past due loans, the proposal would require credit unions to assign a 150% risk-weight to a non-real estate loan if it is 60 days or more past due or in non accrual status. NCUA realized that the ALLL is already reflected in the risk-based capital numerator and increased provisions expenses decrease retained earnings. However, the ALLL is intended to cover estimated, incurred losses as of the

balance sheet date, rather than unexpected losses. The higher risk-weight on past due exposures insures sufficient regulatory capital for the increased probability of unexpected losses on these exposures."

The assumption that the ALLL is intended to cover estimated, incurred losses as of the balance sheet date, rather than unexpected losses is a partially correct thought. There are two distinct calculations going into the ALLL balance, one using the historical loss ratios and the second reviewing all delinquent loans and any other known loss the credit union is aware of and setting aside a dollar amount. The historical loss ratio, by pool, is based on actual losses, that are no longer in the balance sheet and is a projection of unexpected losses going forward. So the intent of the proposal is being met in looking forward for probable unexpected losses by setting aside funds based on past losses. Past losses are no indicator of future losses, but we set aside the funds for that purpose.

A concern over the assumption that now credit unions must set aside funds today, for the unexpected losses in the future is an unsound business practice. During the recent crisis examiners forced credit unions to increase their ALLL. The Norm was increasing your ALLL by 50% to up to 300% based on the unexpected, unknown losses that were going to occur. We are so over funded that we will not have an provision for loan loss expense for years to come.

Recommendation: Would be to weight all delinquent loans at 100%. As current rule is written, if there is an increase in delinquent loans the ALLL is capped at 1.25% of total risk assets being added into the numerator, so additional capital is already being set aside for future losses by not crediting the Capital numerator for the full balance in the ALLL.

6. 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.

The proposal states, "the proposed rule includes a provision that NCUA may require a higher minimum risk-based capital ratio for an individual credit union in any case where the circumstances, such as the level of risk of a particular investment portfolio, the risk management systems, or other information, indicate that a higher minimum risk-based capital requirement is appropriate."

The subjectivity of this approach to require additional capital based on the findings of an examiner would produce unfair practices within our industry. For several years the agency itself has discussed righting it's own ship when it comes to consistency in examinations and has developed new standards for its own teams to follow. Although the past couple of years the consistency of exams has improved the latitude given in this section will have unintended consequences. Each examiner and team has their own strengths and weaknesses, empowering individuals to override regulatory measurements is an unnecessary process in the regulation.

Recommendation: Eliminate the Individual Minimum Capital requirements from the proposal.

7. 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 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. This would allow credit unions the time needed to restructure a balance sheet without the need for a "fire" sale of assets. More importantly, to allow for additional capital to be raised thru Net Income accumulation, as credit unions cannot raise capital in manners similar to banks.

8. The NCUSIF deposit being deducted from the RBC does not achieve the stated goal of the proposal that reflects a more accurate amount of equity and reserves available to cover losses. Also subtracting NCUSIF deposit from the denominator does not support that the deposit is an asset of the credit union.

The NCUSIF deposit is an investment to be held by and used by the NCUA to earn income to cover losses to credit unions and fund a portion of the operating expenses of NCUA. The investment status has been confirmed by numerous CPA firms in their opion audits of credit unions.

The proposal as written, the NCUSIF deposit is a loss and reduces our capital. The treatment of the NCUSIF deposit supports the theory that the NCUA Board has forgot the basic principles for which natural person credit unions were formed and given our tax exempt status.

Recommendation: Do not reduce the numerator or capital by the NCUSIF deposit amount and treat the investment in a similar manner as other investments. Or mail a check back to each credit union and send an annual bill.

In Summary

The rules 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 saving returns, higher loan rates and higher fees.

Over the last few years I feel the NCUA Board has forgotten the basic principles for which natural person credit unions were formed and given our tax exempt status; which is our fundamental business principle -We are a Cooperative! We were formed to serve our membership. Banks are started with one purpose in mind, to make the highest return for their owners.

I do not believe that changes should be made unless you are improving the system. The current proposal the NCUA Board is looking to impose provides little value and will hurt our member owned Cooperative System.

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

Sincerely,

Dawn Miller
CEO
Lassen County FCU

cc: CCUL