Submitted by Email to: regcomments@ncua.gov

National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

May 22, 2014

Re: Commentary Regarding NCUA Risk Based Capital Proposal

I am writing on behalf of Stanford Federal Credit Union, which serves Stanford University faculty, students and alumni, Stanford Hospital, Lucile Packard Children's Hospital Stanford, employees of businesses that are members of the Palo Alto Chamber of Commerce and several large technology companies within our SEG base. We have approximately 50,000 members and $1.6 Billion in assets. Stanford 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.

If converted today to the proposed rule, Stanford Federal Credit Union retains our well-capitalized position. However, we remain significantly concerned about the proposed rule and anticipate it would negatively impact our operations. Stanford Federal Credit Union has a unique field of membership and as such, a unique balance sheet. The proposed rules would limit our ability to manage our balance sheet by imposing limitations that are not reflective of the risks in our portfolio. Some facts to set a framework for subsequent comments:

- Our average share balance exceeds $29,000 per member
- A meaningful portion of our balance sheet is in uninsured shares, which are not reflected in the proposed rules at all. At March 2014, our uninsured shares were $198 million
- Consumer loans are a small portion of our balance sheet. We do not do indirect lending, nor do we feel it is in our organizations best interest to pursue that avenue for consumer loans.
- With consumer loans being less than 10% of our balance sheet, our assets are primarily deployed in mortgage loans, commercial loans and investments.
- Our mortgage loans are unique in that most are jumbo mortgages with large down payments and often come with subordinated 2nd and 3rd loans by companies in the bay area relocating executives to the peninsula. These loans carry a higher yield due to the size and are booked at lower loan-to-values than most mortgage originations for conforming loans.

P.O. Box 10690
Palo Alto, CA 94303-0843
(650) 725-1000

- To maintain a strong balance sheet, Stanford Federal Credit Union relies on commercial lending. We rely on commercial lending to diversify our balance sheet in an asset that has strong yields and typically re-prices in 5 year increments. Our commercial portfolio has historically performed very well.
- Stanford Federal Credit Union's operating expense ratio is less than half of peer at 1.83%.

The risk ratings for mortgage loans are based solely on concentration risk and do not reflect credit quality, including loan-to-value ratios. The tiers compared to BASEL III for small banks are much more restrictive when concentration exceeds 25% of assets. A mortgage loan with an LTV of 50% should not be treated with the same risk weight as a mortgage loan with an LTV of 80%, or 100%, or more. Mortgage and Commercial loans carry requirements in excess of 100% when they exceed certain concentrations despite the credit quality. In addition, the rule incorporates multipliers for delinquent loans on top of the tiered reserve by category of loan. Logically, on-balance sheet assets should in no case be weighted beyond the amount exposed to loss, which is 100% of the asset value. Some of the asset classes go up to 200%.

We have similar concerns about commercial loan risk weighting solely on concentration with no consideration of underwriting or experience in originating and servicing commercial loans. These risk weightings seem to be the result of issues select institutions experienced and feel punitive to those that have been prudent in administering commercial lending programs. As noted with mortgage loans, the proposed risk weights are much more restrictive than small banks utilizing BASEL III.

The proposed rules discourage or penalize organizations that rely on mortgage and commercial lending, despite solid underwriting and low historical losses. As proposed, this rule would have a negative impact on Stanford Federal Credit Union as our business model relies on a higher concentration of mortgage and commercial lending. Due to the composition of our membership and high average share balance, consumer lending is not a significant portion of our balance sheet. This rule could force us to a lower loan-to-share ratio than desired negatively impacting our performance; cause us to cease serving our members mortgage needs and risk losing other relationships as a result; force us to reconsider other programs that carry more risk in our view, such as indirect lending or private student loans; and limit our ability to originate and service loans to small businesses despite our 10 year history in commercial lending.

The proposed rules do not reflect reduced risk for organizations that maintain low operating expense ratios. The capital requirements in the proposed risk based system are the same for an organization with a 2.0% operating expense ratio as they are for one with a 4.0% operating expense ratio despite the former having an advantage to absorb a narrower interest rate margin or higher credit losses.

P.O. Box 10690
Palo Alto, CA 94303-0843
(650) 725-1000

The proposed rules also do not reflect the effect of uninsured shares. Stanford Federal Credit Union has seen our capital ratio fluctuate as much as 13 basis points in one day due to large deposits from 2 members. In this scenario, all of the deposits were uninsured and as such posed no risk to the share insurance fund, despite the reported drop in capital resulting from the inflow of deposits.

The logic behind subtracting the NCUSIF deposit from capital is not clear. Since the NCUSIF deposit is not part of capital to begin with, it does not appear appropriate to subtract it, especially since this is a deposit held by the NCUA to cover credit union failures. We do not believe it should be part of the calculation for the numerator or the denominator.

Limiting the ALLL to 1.25% of the risk assets numerator appears to be an arbitrary limitation.

Stanford Federal Credit Union is also concerned about the proposed restrictions included in the rules on paying dividends, particularly at a well-capitalized level. We understand the qualifying criterion specifies dividends "higher than the prevailing market rates" and that "after payment of the dividend, the credit union's net worth would decline to less than 6.0% in the current quarter"; however, this language and restriction is troubling in a number of ways. First, how is a determination of the prevailing market rate determined and at what point? Is it all rates in the financial industry, credit union market specific, etc.? Also, the impact of ceasing dividend payment to membership has serious consequences and should be evaluated very carefully. A number of credit unions, with and without regulatory assistance, have restored net worth ratios under developed and approved capital restoration plans without inclusion of restrictions to dividend payments.

The rules attempt to combine concentration risk, interest rate risk and credit risk. However, the impacts of efforts to hedge interest rate risk are not included in the calculation. Analysis of interest rate risk requires consideration of a multitude of variables that cannot be simplified into a model as simple as the percentage of total assets. To be consistent with capital ratios for banks, neither interest rate risk nor concentration risk should be included in this credit risk coverage measure. We believe that NEV is a better measure of interest rate risk and that interest rate risk considerations should be excluded from this model.

Stanford Federal Credit Union does not believe NCUA has justified the need for the rule. We are significantly concerned with the catch-all in the rule that states NCUA can establish whatever capital level they deem appropriate for an individual credit union on a case-by-case basis. This provision raises a number of red flags, including the potential for agency or examiner abuse. The specific situations outlined in the proposed rule and additional factors that may be considered by NCUA in making a determination to require more capital are by necessity highly subjective. This provision for subjective determination grounded in agency experience in exercising this authority is scary.

P.O. Box 10690
Palo Alto, CA 94303-0843
(650) 725-1000

Assuming a rule is finalized in the current or a modified form, the 18 months proposed for implementation is unreasonable. Banks have up to 9 years to fully implement BASEL III, yet NCUA is proposing only 18 months for credit unions to comply with the new proposal.

The proposal as it stands would restrict credit unions from competing and result in unintended consequences. The rule will force Stanford Federal Credit Union to make decisions due to regulation that is not justified in our view, as opposed to decisions rooted in sound business practices and will reduce our ability to serve members to the extent we can today.

Stanford Federal Credit Union appreciates the opportunity to comment on this proposed rule and for considering our views on risk based capital requirements. We urge the NCUA Board to modify the proposed rules, taking into consideration the concerns noted by Stanford Federal Credit Union and our colleagues in the industry.

Respectfully,

Joan Opp, CPA
President/CEO

P.O. Box 10690
Palo Alto, CA 94303-0843
(650) 725-1000