VENTURA COUNTY CREDIT UNION

From the Desk of
Joe Schroeder
President / CEO

May 20, 2014

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

Via Email to reqcomments@ncua.gov.

Comments on Proposed Rule: PCA - Risk-Based Capital

Dear Gerald Poliquin,

I am writing on behalf of Ventura County Credit Union, which serves Ventura and Santa Barbara Counties in California. We have 63,000 Members and $675 million in assets. Ventura County 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.

General Observations:

We do believe there is value in a risk based capital approach, as the inherent risk in the balance sheet may vastly differ from one credit union to the other, but we believe a one size fits all approach is a bit simplistic. We have concluded that the proposed rule is very punitive and it would limit our ability to lend or grow and therefore negatively impact our income opportunities. The proposed risk weighting for assets does not appear to be well thought out given it deviates from risk weight by the FDIC to the point of distortion. We do not believe that we should be subject to rules that are significantly more stringent than proposed bank rules and understand that creating a RBC rule similar to the FDIC's rule was a major goal for NCUA. To further identify how different the RBC methodology, effective December 31, 2013, NCUA proposed RBC ratio was at 12.55% vs. 13.90% -- FDIC RBC ratio.

Areas of Concerns and Recommendations:

- Individual Minimum Requirement (IMCR) - Section 702.105[b] of the proposal authorizes NCUA to impose higher capital requirements for individual credit union. We believe that providing an examiner the power to require additional capital requirements is unreasonable.

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Two NCUA Capital Market Specialist had vastly different conclusions of our IRR during a similar period. We fear that one of these specialists would have required a higher risk based capital ratio. Interpretation of the IMCR triggers may be subjective and causes gross uncertainty for a credit union to take on sound strategic initiatives. We recommend eliminating this section completely.

- NCUSIF Action: Exclusion of NCUSIF 1% deposit from the RBC calculation poses negative impact on RBC ratio. We believe that this should be inclusive in the numerator calculation.
- ALLL: Allowance is capped at 125% of risk assets. We recommend applying 100% of ALLL reserve balance; further for consistencies within the financial industry, classification of reportable delinquency on real estate loan should be past 90 days similar to the FDIC rules
- Cash deposits: Deposit at the Federal Reserve Bank is risk weighted at 20%. We believe that the risk weight should be 0%, as inherent risk is nonexistent.
- Investments: Proposed risk weight as high as 200% are obscene and no validation is offered while the same investment at banks is subject to a flat 20% risk weight. Yet when VCCU performs ALM studies, we are forced to get third party even forth party validations. We recommend applying Banks' proposed rate. Further, proposed risk weight does not differentiate credit risk -- agency backed vs. private label bonds. The flaw in this calculation is that, it appears to capture the interest rate risk and ignores the liability side of the balance sheet. Notably, VCCU's Net Economic Value (NEV) up 300 bps is 7.69% and Net Interest Income (NII) is 9.80%-- effective March 31, 2014. We recommend applying Banks' proposed rate -- Basel III risk rate of 20% for all maturity categories.
- Member Business Loans: The proposed risk rate of 200% at the highest is unreasonable while banks are under flat risk rate of 100%. And have unlimited capacity vs. 12.25%. This proposal may force credit unions to potentially portfolio personal loans (risk rate of 75%)— which may pose higher credit risk and longer term Mortgage loans (risk rate of 50-100%) with duration risk.
- The risk weighting is based solely on concentration limits and does little to factor Interest Rate Risk and Credit Risk.
  - Loan-to-Value ratios are not factored for Credit Risk in the proposed rules. Delinquent Member Business Loans have no impact on the risk weighting while the excess MBL over 25% of Assets would be risk weighted at 200% regardless of LTV. Using this model 100% of a Credit Unions MBL's could be delinquent over 180 days and still be risk weighted at the lowest MBL tier of 100%
  - There is inconsistent consideration for Interest Rate Risk. An MBL with a five year balloon is risk weighted the same way as a 30 year amortizing MBL. The same is true for 1st Mortgage RE Loans. A 3-1 Adjustable Rate Mortgage (ARM) repricing in 3 years after origination, a 10 year fixed rate mortgage and a 30 year fixed mortgage are risk weighted at the same rate.
  - There is no consideration taken for the liability durations and maturities. While the Real Estate, Business Loans, and especially Investments are risk weighted highly to approximate interest rate risk nothing is considered for the matching liabilities.
  - If there were at least some effort to recognize the difference between holding 30% of your assets in real estate loans but 95% of the loans are below 70% LTV then we would better understand.

- Mortgage Servicing Rights: Proposed risk weight for mortgage servicing rights is 250%. We are having a difficult time understanding the rationale for imposing 250% for an off balance sheet item. We recommend applying Bank's Basel III risk weight of 100%.
- CUSO - the NCUA proposal uses a 250% risk weight on CUSOs while the Bank rules would apply a 100% weight on relatively low levels of CUSO investments. And there is no effort to differentiate the types of CUSO investments.
- Extend the transition period significantly, recommend minimum three years – Eighteen months is simply not enough time for credit unions to safely make the changes necessary to be in compliance, especially in the absence of authority to raise supplemental forms of capital other than retained earnings. I believe the Banks will have three years.

Summary:

Consumers should be able to compare the relative capital position of different financial institutions yet they would be completely mislead due to the incredible difference in the methodology used by the NCUA and FDIC. This confusion is bad public policy and nearly impossible to defend.

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

Sincerely,

Joseph Schroeder

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