From:	Sohlberg, Charles
To:	_Regulatory Comments
Subject:	Chuck Sohlberg - Comments on Proposed Rule: PCA - Risk-Based Capital
Date:	Friday, May 23, 2014 11:38:07 AM

May 23, 2014

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

RE: Proposed Rule – Prompt Corrective Action; Risk-Based Capital

Dear Mr. Poliquin:

I am writing on behalf of RIA Federal Credit Union which serves over 38,000 members. Our mission for over seventy-five years has been to provide the best services, rates and value that we possibly can. RIA Federal Credit Union recognizes that to properly serve our membership, and ensure we will safely and securely serve them for many years to come, capital must be maintained and protected. However several areas of the proposed Risk-Based Capital regulation have raised concerns that we believe need to be addressed.

The proposed risk rates will have the unintended consequences of reducing services to members. Fewer loans will be made, expenses will be higher, earnings will be lower and the question of what's best for the member is not addressed. What's best for the member is a wide variety of services available to them from strong credit unions that will endure for a long time.

Several concerns have been raised, including:

- Funds on deposit at the Federal Reserve Bank are not specified to be included in Category 1 with a zero risk rating. NCUSIF capitalization is listed in Category 1, but by not listing the FRB it is implied that it would be treated as overnight funds in Category 2 regardless of an actual risk comparable to the NCUSIF.
- All funds covered by FDIC or NCUA deposit insurance should be risk-rated at a zero rate if U.S. government debt is risk rated at a zero rate. How can funds we have on deposit at a corporate credit union and covered by the NCUA insurance be any risker to us than our own capitalization of the NCUSIF fund?
- The risk ratings given to mortgage categories do not correlate to the actual risks we experienced in the last recession. Higher capital requirements will limit our ability to serve our members with mortgage loans and reduce the value of credit union membership overall. A one-size-fits-all arbitrary risk-rating based on the losses experienced in a handful of markets is not a proper approach. All it does it restrict the credit union movement from making mortgages to their members and pushes members towards subprime lenders. Real estate capital risk-ratings should be based on historical data from actual losses.
- Increasing the risk-rating of mortgages based on the percentage of total assets doesn't truly measure the risk involved. A $4MM credit union making $1MM in jumbo mortgages in an overheated market would have a lower risk-rating than a $100MM credit union making $26MM in conforming mortgages in a stable market even though all aspects say the small

credit union has a riskier mortgage portfolio. Measuring a portfolio against total assets is not an actual measure of risk and would in fact encourage credit unions to make high-rate, risky mortgage loans to compensate for lower portfolio size and earnings.

- Weighing corporate credit union capital at 100% or 200% pushes credit unions away from corporates. The risk of corporates would be better controlled by the examiners at the corporates.
- Requiring a 100% risk-rating on land, building and fixed assets would discourage investment in growing branch networks or modernizing equipment. The current rate is 7% and raising it to 10.5% increases the capital cost by 50% to add new ATM machines, update phone systems or modernize branches at a time when the credit union movement is already under pressure from banks and other financial service providers to adopt new technology and improve our services. This risk-rating will be another drag on implementing new technology like EMV cards and mobile deposit capture needed for safety, and attracting new and younger members.
- The risk-rating of 100% on loans in CUSOs would diminish the cooperative nature of credit unions. We have supported CUSOs for many years with loans to advance the credit union cause by making services available to smaller credit unions. If our capital requirement is increased from 7% to 10.5% we will have to reduce our support because of the increased expense and that will hurt the credit union movement as a whole if everyone is forced to follow.
- We strongly recommend removal of the 1,250% risk-rating Category 10 applied at the discretion of the examiner. This arbitrary and excessive rating (set at five times the highest defined risk category) will lead to inconsistent application and capital planning. You can not adequately manage capital levels if risk-ratings can be changed by several multiples without justification or appeal.
- The eighteen-month timeframe for implementing this rule is far too short. Such wide-ranging changes that touch all areas of operation will need a much more gradual implementation to avoid losses. Time is needed to allow loans and investments to run off the books naturally rather than forcing sales under adverse conditions. Margins are thin enough as it is and further expense will only hurt credit unions' capital levels in the long run, which is the opposite of this rule's intention.

While RIA Federal Credit Union exceeds the current well-capitalized requirements, as well as the proposed Risk Based Capital Ratio as determined by the NCUA calculator, we still feel the proposed rule needs to be adjusted before implementation.

Thank you for considering our comments.

Sincerely,

Chuck Sohlberg
VP Accounting
RIA Federal Credit Union