Contra Costa
Federal Credit Union

May 23, 2014

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

Re: Comments of PCA - Risk-Based Capital Proposed Rule

Dear Mr. Poliquin:

On behalf of our Credit Union which serves 27,500 members primarily in California, I appreciate the opportunity to comments on NCUA's proposed risk-based capital rule, which would make major revisions to the structure of corporate credit unions.

We thank NCUA for proposing regulations that will help improve and strengthen the natural-person credit union system. Our comments on selected portions of the regulation are as follows:

<u>Calculation of Capital and Risk Weighting of Assets</u>

Our concerns regarding the proposed asset risk weightings are as follows:

1. The limiting of the Allowance for Loan and Lease Allowance (ALLL) to 1.25% of the risk assets appears arbitrary. This limitation serves as a disincentive for potential mergers with credit unions which had to increase their ALLL due to a poor loan portfolio. It would serve NCUA from a safety and soundness perspective to encourage mergers of troubled credit unions into much healthier credit unions without the threat of an overly stringent calculation of capital. Also, it will limit credit unions to take some risk with innovative loan products such as high Loan-to-Value (LTV) real estate loans, student loans, and participation loans.

2. Similarly, the subtraction of Goodwill and Intangible Assets from capital is also likely to provide a disincentive to mergers, especially if the amounts are significant. Because Fair Value Accounting has many methodologies and opinions, its impact can dramatically change from the time the merger is agreed to until its completion.

3. Investments with remaining maturities over five years are penalized with risk weights in excess of 100%. This will severely limit income opportunities based on the Treasury yield curve and does not distinguish between balance sheets with different levels of long-term assets. In other words, a credit union is a small amount of real estate loans should be allowed without penalty to invest more in the 5-15 year sector.

4. There should be no risk weights for any investments in U.S. Treasury or Federal Agency Securities because of the federal guarantee or implied guarantee.

5. Along those lines, the corporate credit union Perpetual Contributed Capital (PCC) weighting of 200% is illogical. Since NCUA has effectively squeezed most of the risk out of the corporate system and has continually encouraged credit unions to invest within the corporate system, the PCC should have little or no risk.

6. Some delinquent loan categories have risk weightings in excess of 100%. Again, this makes little sense.

7. We do not understand why nondelinquent loans have any risk weighting at all. If they are paying as agreed, the risk is minimal. In an industry that boasts a delinquency ratio well below 1%, having a risk weighting for current loans is punitive.

8. Unfunded commitments for non-business loans with a 10% conversion carry a 75% risk weighting. Mathematically, this is illogical. Most of the unfunded commitments will never be used. Hence, there should be no risk weighting. If NCUA is assuming a 10% conversion, then there should be a 7.5% (10% x 75%) risk weight.

9. NCUA encourages the use the credit union CUSOs to reduce the possible risk from outside vendors. Yet, the agency is making it more difficult to own and operate a CUSO with added unnecessary oversight and unreasonable risk weightings. We support CUSOs because of the trust factor and the great work most of them do in making a stronger credit union system.

<u>Conclusions</u>

If finalized as proposed, this rule is likely to bring on a competitive disadvantage for all credit unions and create more of an advantage to banks. It may even serve as an inducement for credit unions to consider converting to a bank charter.

We urge the NCUA Board to modify the calculation in order to meet its stated goal of imposing capital requirements consistent to those used by the FDIC

We appreciate the opportunity to respond to your proposed regulation. Thank you for your consideration of our views.

Sincerely,

David M. Green
President/CEO

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