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May 22, 2014

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

RE: RIN 3133-AD77

Prompt Corrective Action- Risk-Based Capital

Dear Mr. Poliquin:

On behalf of San Antonio Federal Credit Union (SACU), I am writing in response to the Prompt Corrective Action-Risk-Based Capital Proposed Rule. SACU is based in San Antonio, Texas and currently serves more than 250,000 members. We appreciate the NCUA for its efforts in drafting the Risk-Based Capital proposal, which will help prevent future losses to the NCUSIF. Additionally, SACU appreciates the movement from a total assets one-size-fits-all approach to one that will include categories of assets. However, we would like to respectfully address the following concerns and offer possible improvements to the regulation indicated in italicized format following each applicable section of the proposal for your consideration.

702.105(c) Standards for Determination of Appropriate Individual Minimum Capital Requirements

In the proposal, an examiner can increase (but not decrease) a credit union's individual risk-based capital requirement by subjective action during an examination based upon his or her determination of the need for additional capital versus the balance sheet risk. This component of the proposed rule lacks objective clarity, therefore undermining the effectiveness of the entire regulation.

If examiners are allowed to set their own risk-based capital requirements, there is no real justification for the regulation. It is critical for SACU and all credit unions to know concretely what are the required capital standards for various classes of assets as to execute their plans of managing the credit union accordingly for the benefit of its membership. While judgment on the past of informed examiners is valuable, it can lead to uncertainty and anxiety as dynamic of change occurs.

To improve the final rule, the examiner discretion component to increase the required risk-based capital ratio beyond 10.5% should be removed.

702.104(c) Risk-Weights for On-Balance Sheet Assets - Mortgage Loans

NCUA has stated that it intends to bring the CU method into comparative alignment with the capital standards utilized by other financial institutions – particularly emphasizing comparability with international accords such as BASEL III applied to community banks. With comparability being the standard, these proposed risk weightings are undeniably based more so on concentration risk concerns and are in reality considerably higher in their capital requirements of the credit union industry than would be required of banks under BASEL III, as identified in the following table:

Category	Sub-Category	NCUA Proposal	FDIC Weights
Real Estate Loans	Non-delinquent 1st mort R/E loans (excl. MBLs)		
	< 25% of assets	0.5	0.5
	25 – 35% of assets	0.75	
	> 35% of assets	1	
	Other R/E and delinquent R/E		
	< 10% of assets	1	1
	10 – 20% of assets	1.25	
	> 20% of assets	1.5	

To improve the final rule, consideration should be given to utilizing FDIC comparable risk weights if NCUA is serious about its stated intentions of comparative alignment.

702.104(c) Risk-Weights for On-Balance Sheet Assets - Non-delinquent Collateralized Assets

Risk weights for performing consumer loans with collateral are the same as unsecured consumer loans. This one-size-fits-all approach is inappropriate and does not accurately reflect the actual risk differences between collateralized and unsecured loan assets to the credit union.

To improve the final rule, consideration should be given to a lower risk weighting for performing collateralized consumer loans than unsecured consumer loans. This data is reflected on the 5300 Call Report and could be easily incorporated into the risk weights within NCUA's stated purpose of ensuring that the Risk-Based Capital is easily understood and based upon available Call Report data.

702.104(c) Risk-Weights for On-Balance Sheet Assets – CUSOs

The NCUA CUSO final rule issued on December 3, 2013, made substantive changes to NCUA Regulation Parts 712 and 741, classifying certain types of CUSO activities (Credit and Lending, Information Technology, and Custody Safekeeping and Investment Management Services for Credit Unions) as high-risk to individual credit union investors in those CUSOs, the credit union system as a whole and potentially to the NCUSIF. This proposed rule is contradictory to those conclusions by the agency in finalizing the December 2013 CUSO rule because this proposal states that investments in all CUSOs – regardless of type, purpose or historical performance - carry the same risk-weighting. Additionally, this proposal indicates that investments to CUSOs are 2.5 times riskier than loans to CUSOs which are risk-weighted at 100%.

SACU recognizes the need for CUSOs in the credit union industry and is concerned that unless the risk weighting is made more appropriate, this risk-based capital proposal component has the potential to negatively impact CUSO investments. A lack of investments in CUSOs could adversely impact earnings, collaborative savings and the ability of credit unions to remain competitive in the financial industry. Ultimately, this proposal could prohibit CUSOs from providing services to natural person credit unions at a cost-effective rate. In turn, natural person credit unions would likely seek services from for-profit providers at less competitive pricing.

To improve the final rule, consideration should be given to incorporating different risk weightings for CUSOs to be aligned with the recently approved CUSO regulation. The risk weighting for investment in CUSOs whose primary activities are not considered high risk should be the same as loans to CUSOs (100%). Those CUSOs that NCUA considers high risk should be monitored and supervised through the various credit unions that invest in them under the quite far-reaching provisions of the CUSO regulation.

<u>702.104(c) Risk-Weights for On-Balance Sheet Assets - Mortgage Loan Servicing/ Loan Participation</u>

The proposed rule sets a risk weighting of 250% for loan participations which could discourage risk management through the use of this tool. If this risk weighting remains unchanged, a negative impact may be felt by the credit union industry by limiting the options available to manage balance sheet risk. Ultimately, this decrease could lead to further losses to the NCUSIF. Loan participation by its very nature is diversification to reduce risk. Risk weighting greater than total loan overly weights and restrains.

To improve the final rule, consideration should be given to lowering the 250% risk weighting to not exceed the weight of the underlying loan type being participated, especially considering that NCUA made changes to 701 and 741 only last year which limit concentration risk in loan participation investments.

<u>702.104(c) Risk-Weights for On-Balance Sheet Assets - Corporate Paid-in Capital</u>

Given the regulatory changes that Corporate Credit Unions have implemented over the last five years (additional capital requirements, stringent investment limits, concentration risk limits, governance changes and increased regulatory oversight), SACU does not agree with the 200% risk rating for paid-in capital investment to corporate credit unions. This risk rating could discourage investment in corporate credit unions, which could prohibit corporate credit unions from providing services to natural person credit unions. If corporate credit unions were unable to provide services at a cost-effective rate, natural person credit unions would have no option but to seek services from for-profit service providers.

To improve the final rule, consideration should be given to a reduced risk weight. While history indicates that there is some potential loss in paid-in capital to a corporate credit union, it is hard to imagine – with the new corporate rules in place – that a credit union can lose twice as much as it invested in the corporate. Also, it could have unintended consequences on the credit union industry in its efforts to mitigate loan and deposit imbalances which reduces systemic risk. The maximum amount of loss would seem to be, in any circumstance, the amount of the PIC investment. This would continue to encourage investment in corporate credit union capital and, as a result, would benefit natural person credit unions, corporate credit unions and the share insurance fund.

In conclusion, although SACU appreciates the efforts of the NCUA in drafting the proposed Risk-Based Capital rule; our credit union is concerned that if left unchanged, the final rule would impede our industry's ability to remain competitive as well as impact our efforts at achieving congress intend for us to serve people of modest means.

Thank you for the opportunity to comment. We are hopeful that NCUA finds these suggested improvements useful.

Sincerely,

Eric Malagamba
CFO
San Antonio Federal Credit Union