May 23, 2014

To: regcomments@ncua.gov

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

Re: Comments on Proposed Rule: PCA – Risk Based Capital

Dear Secretary of the Board Poliquin,

I am writing on behalf of Delta Community Credit Union. We have over 298,000 members and $4.6 billion in assets. I appreciate the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action - Risk-Based Capital.

While we agree there is value in adopting a risk-based approach to the amount of capital held at federally insured credit unions, we do have some concerns with respect to the proposed rule.

We agree that risk based capital requirements are prudent to ensure the safety and soundness of credit unions, and feel that, if implemented appropriately, could be a more appropriate measure than the current prompt corrective action rules. However, prompt corrective action systems are designed to address credit risk and are not generally used to address other forms of risk to which financial institutions are exposed. Neither Basel III nor the FDIC Interim Final Rule attempts to capture interest rate risk, liquidity risk, market risk, or operational risk in its risk weightings. By attempting to capture other risk exposures, the proposed rule limits the comparability of risk-adjusted capital levels across all types of federally insured financial institutions. Additionally, the proposed rule's approach to risk is unnecessary as the other forms of risk already have regulations devoted to them. We recommend that this rule not attempt to address losses due to these other risks.

The proposed rule would affect Delta Community Credit Union by adding additional reporting and monitoring burdens on our staff. To comply with the proposed rule and maintain our capital buffers, we could be forced to adjust our balance sheet and lending strategies, reducing assets deemed 'risky' by the rule, and reduce credit availability, particularly mortgages and business loans which are assigned risk-weights that could be considered not to be consistent with the actual associated risk. Because the proposed rule includes several risk-weights

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which could be similarly questioned, some of which are more stringent than comparable risk-weights under the Basel standards for small banks, the proposed rule could have a significant adverse impact on our ability to serve our members.

The proposed rule gives the NCUA the ability to impose higher capital requirements on credit unions on a case by case basis. We do not agree that the NCUA should have the ability to set individual minimum capital standards using subjective criteria that would override all of the objective measurements established elsewhere in the proposal. This power would allow the NCUA to subjectively place a credit union into prompt corrective action status such that all NCUA recommendations become backed by regulatory enforcement powers. This discretion could lead to concerns regarding the potential of unfair and inconsistent interpretation and application and could further lead to mistrust between credit unions and NCUA.

If the proposed rule were to become final as initially issued, credit unions may have a perverse incentive to increase levels of poorer credit quality consumer loans at the expense of higher levels of even the strongest, most secure MBLs, real estate and longer-term investments. We do not understand how higher levels of low quality assets (whatever their category) exposes the NCUSIF to less risk than higher levels of high quality assets (whatever their category).

Concerns with risk weightings by category:

Member Business Loans: The member business loan cap that is in place (12.25% of assets) requires a waiver to exceed the limit and, as such, is subject to the review and conditions set by the NCUA. As a result, we believe assigning more risk for member business lending in excess of 15% of assets would be redundant to the existing regulatory structure for MBL's.

Mortgage Loans: We believe that FHA and VA guaranteed loans should contain a 0% risk weighting. Mortgage loans are backed by collateral and therefore have less risk of loss, which is not taken into account as it is for banks. The risk-weights in the proposed rule, in some situations, would be twice that of the comparable Basel weights, despite the fact that for this category of loans, credit union losses trend at about half the loss rates of small banks. We believe the risk weights should be equal to those of smaller banks.

Longer-Term Investments: Risk weightings for investments should be established based on the potential for losses, not based on weighted average life (WAL). Further, NCUA's risk weights for investments appear inconsistent. All Treasury securities and debt instruments guaranteed by NCUA or the FDIC carry a 0% risk weight, no matter the maturity. Yet, other types with no credit risk, such as securities issued by Fannie Mae or Freddie Mac or fully-insured time deposits in other financial institutions, are risk weighted based on WAL time bucket. Investments with WAL greater than 5 years are given especially stricter risk weights (150% for 5-10 year WAL and 200% for 10+ WAL). This methodology is questionable; a 30-year mortgage on the books has 50% risk weight while that same mortgage in a Fannie Mae pool with 5-10 year WAL has 150% risk weight. These risk weights could potentially alter sound investment/ALM/IRR approaches and reduce returns. Also, the rule does not consider whether IRR is balanced with ALM as a whole, rather, it is biased against longer-term, fixed-rate securities. We believe the investment risk weights should be equal to those of smaller banks.

Consumer loans: The risk weighting of 150% for delinquent loans is excessive and should be lowered to 100%. Because NCUA recognizes loans as past due at 60 days rather than 90 days for other federally insured financial institutions, credit unions are already holding more capital at a risk weighting of 100%.

CUSOs Investments and Loans: We believe the 250% weighting on CUSOs will stifle risk sharing and collaboration, the very reason CUSOs exist. The CUSO risk metric is not justified when the true nature of CUSO investment is considered. The figure appears arbitrary for several reasons, including the fact that there is no differentiation based on the business purpose of the CUSO, the ownership structure of the CUSO (single or multiple owners) or the corporate structure of the CUSO. Additionally, the NCUA has other adequate and more efficient means to address concerns it may have regarding the various risks that may be presented by the business operations of CUSOs themselves. For example, NCUA recently finalized various amendments to Parts 712 and 714 of NCUA Rules "to increase transparency and address certain safety and soundness concerns." These amendments, among other things, require all CUSOs to annually provide basic profile information to NCUA and the appropriate state supervisory authority and require CUSOs engaging in certain complex or high-risk activities to additionally report more detailed information, including audited financial statements and general customer information. Because the NCUA has employed alternative means to limit a credit union's exposure to loss from an investment in a CUSO and because the NCUA has effective oversight of CUSOs generally, we recommend that NCUA remove any risk weighting above 100% for CUSO investments and loans.

The proposed rule excludes the NCUSIF deposit from the calculation of RBC ratios. We believe the NCUSIF deposit is a valid asset. It can be refunded for a few reasons (i.e. converting to bank or savings institution charter, credit union elects private insurance instead of NCUA, voluntary liquidation). It provides an additional buffer against NCUSIF losses in addition to a credit union's capital if a credit union fails. The fact remains, if we can take our 1% into a new charter, the 1% is ours. If our 1% is available for any insolvency of the credit union, it is part of our risk profile and analysis. We recommend not excluding the NCUSIF deposit from the calculation of RBC ratios.

We feel that the regulation should make a provision for the fact that uninsured shares pose no risk to the NCUSIF, and should therefore be factored into the RBC calculation, possibly as a deduction from the denominator.

We also have concerns with the ALLL being limited to 1.25% of risk weighted assets. The discussion states this limitation is proposed to provide an incentive for granting quality loans and recording loan losses in a timely manner. While we understand the limitation on capital inclusion for the reasons stated, we feel there is a disregard for the excess ALLL and the proposed rule does not provide an equitable solution. We recommend the excess over 1.25% of risk weighted assets should be recognized as a reduction of risk weighted assets at 100%.

Finally, we believe that the 18 month implementation is too short. Small banks will have had nearly nine years to implement the Basel capital standards, which in many cases are less restrictive, from the time they were first developed in 2010 until the time they will finally be implemented in 2019. Additionally, we believe that any Call Report changes should be implemented first to allow credit unions to put the data gathering and information systems in place to properly report on Risk Based Capital requirements. Eighteen months is simply not enough time for some credit unions to make the changes necessary to be in compliance, especially in the absence of authority to raise supplemental forms of capital other than retained earnings. We feel that an implementation period of 36 to 48 months is more appropriate.

Thank you for the opportunity to comment on the proposed rule. Please let us know if you have any questions or comments regarding this letter, or need additional information to clarify Delta Community Credit Union's perspective on the proposed rule.

Sincerely,

Hank Halter

Hank Halter
Chief Executive Officer

cc: Jim Diffley - Chairman, Board of Directors
Jay Gratwick – EVP Chief Financial Officer