From:	Joe Murcar
To:	_Regulatory Comments
Subject:	Prompt Corrective Action Risk-Based Capital Comment Letter
Date:	Friday, May 23, 2014 5:30:51 PM

Dear Secretary of the Board Poliquin,

I am writing on behalf of Spokane Federal Credit Union which serves Federal, State and County employees in addition to numerous Select Employee Groups. We have 12,000 members and are $130 million in assets. Spokane Federal Credit Union appreciates the opportunity to provide comments to the National Credit Union Administration on its proposed rule, Prompt Corrective Action - Risk-Based Capital.

We support the idea of risk-based capital. Credit Unions's that have a higher level of risk should be required to have more capital however, we are concerned with many areas of this proposal:

• Mortgage Loans – In the proposal, non-delinquent first mortgage real estate loans start at a 50% risk-weight for those loans that represent less than 25% of a credit union's assets, then jumps to 75% for those in the 25-35% range of assets and finally, 100% for loans above 35%. These ranges do not take into consideration whether the mortgage has a low "Loan-to-Value" ratio or the borrower's credit score. Also, FDIC weighs these loans at 50% regardless of the concentration. If anything, the weights for credit union's should be less than for banks due to how well we fared through the recession relative to banks.

• Consumer Loans – We believe that a weighting of 75% is appropriate.

• Member Business Loans – Although we do not generate very many of these types of loans, I have had conversations with my peers that are very concerned whether they will survive with the new rules. They argued that they fared well through a major recession and would continue to fare well despite a high percentage of Member Business Loans. We hope that NCUA works with these credit union's to give them the flexibility they need to continue in business, which includes allowing them to raise supplemental capital to meet higher capital requirements.

• Individual Minimum Capital Requirements & 1250% Risk Weight

These 2 aspects of the rule are very concerning.

First, NCUA currently has the ability to reclassify a credit union's net worth but requires board action, requires a hearing and is not delegable. In the new proposal, an individual examiner has the authority to require the credit union to have a higher level of capital than the standard rules. We strongly disagree and recommend it be removed from the proposal.

We also strongly disagree with an examiner having the ability to risk weight an asset-backed investment to 1250% if they believe the credit union is unable to demonstrate a comprehensive understanding of the features. Oftentimes, the examiners do not have the expertise to make that type of judgment. These investments should be assigned a risk weight based upon their actual risk.

• Longer-term Investments – The investment risk weighting criteria should be expanded beyond weighted average life to reflect the actual risk of the investment. For example. Private label securities have more risk than agency backed securities. Also, the treatment of agency mortgage-backed securities does not make sense. A mortgage in a credit union has a 50% risk weight with FULL CREDIT RISK while the same mortgage in an agency mortgage-backed security with LIMITED CREDIT RISK has 75% or 150% risk weight.

• Allowance for Loan Losses – The limitation of 1.25% of Risk Assets does not make sense. Although the limitation does not apply to us, there is no logical reason why this should be limited. The rule should allow the full amount added to capital

• CUSO Investments – The risk weight given to CUSO's (250%) is excessive and should be lowered. Our CUSO does not present hardly any risk yet it's weighted 5 times as much as a real estate loan. There should be differences on the risk weight for CUSO's, depending upon the level of risk each one poses.

- NCUSIF Capitalization Deposit – The current rule is effectively treating this deposit as if it was fully expensed. Since it is refundable, it should be treated as an asset on the balance sheet. We understand there is risk, therefore, it should be risk weighted.

We also believe the time table for the new rule should be extended. There needs to be sufficient time to hear our concerns and to get it right the first time.

My position at our credit union is Vice President of Finance.

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

Sincerely,

Joe Murcar
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