From: Michael Warrell
To: _Regulatory Comments
Subject: Michael Warrell - Comments on Proposed Rule: PCA - Risk-Based Capital
Date: Friday, May 23, 2014 1:32:48 PM

In January 2014, NCUA proposed to amend its current risk-based net worth requirements with new risk-based capital requirements. The reason for the amendment, according to the agency, is to "ensure the safety and soundness of federally insured credit unions" with more than $50 million in assets. The proposed rule increases the standard at which NCUA will consider credit unions well-capitalized — a risk-based capital ratio of 10.5% and higher — while also revising the risk-weights for many of the agency's current asset classifications. We at Solano First Federal Credit union believe if approved as is this regulation will have far-reaching effects for the entire industry. For example:

Credit Unions Will Be at a Disadvantage Compared To Banks

- We believe that it's not fair to impose additional hardships as credit unions did not cause the economic meltdown and aided consumers and businesses in the wake of the recession. This cannot be said for the banks who have benefited from the extremely low rate environment, excess TARP monies, and to date have not passed those benefits back to their customers.

- We believe that this elevated risk rating system will reduce the number of credit unions willing to consider merging troubled credit unions, and may result in those credit unions conversion to banks, whose Basel III calculation appears to be less onerous. The industry is already losing approximately 300+ credit unions a year, this regulation may increase those loses.

The Proposal Will Weaken Credit Unions' Ability to Meet Member Needs

- Solano First may be forced to do the following, further reduce dividend rates, curtail accepting deposits, discontinue offering real estate loans, restructure the balance sheet to sell off long-term loans and investments, increasing fees to members to build up capital. This is not the credit union motto of "people helping people"

- Solano First is not unique in the fact that we present ourselves to our members and the community we serve as a more affordable alternative to banks. As it stands, we may be a more affordable alternative, but certainly a far less competitive alternative as the risk based capital rule will result in the restriction of mortgage services in our compliance efforts with the new rule.

The Risk Weights Are Arbitrary and Ignore Key Considerations

- We believe that by simply categorizing assets based on years to maturity, only interest-rate risk is being captured, and not very accurately. No consideration is being given for whether a security is fixed-rate versus variable-rate. The new rule also does not take into consideration the credit-risk differences of portfolios.

- We believe the risk weightings are overly general and do not take into account the nuances of particular portfolios. For example, some real estate loan portfolios are not as risky as others based on policies, loan-to-value, and other terms. There are many factors that are not being taken into account when accessing the risk of a credit union using a one size fits all calculation.

This purposed regulation needs more time to develop. As the regulations stands today we are not in favor of this rule / requirement.

Sincerely,

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"Access Equals Freedom"