From:	Richard Ayala
To:	_Regulatory Comments
Subject:	Risk Based Capital Proposal
Date:	Friday, May 23, 2014 6:31:19 PM

I have reviewed the Federal Register document dated February 27, 2014, as well as reading the information posted on the NCUA website, and viewed two NCUA sponsored videos concerning this proposed regulation change.

I know we can agree that we all want properly managed balance sheets with the desire to reduce interest rate risk and avoid serious pitfalls as interest rates start to rise in the near future. The proposed Risk Based Capital plan is flawed, and will severely impair credit unions from growing and being competitive in a very turbulent financial services banking industry, and I would encourage the NCUA to reconsider this proposal and bring in CEO's and CFO's from credit unions across the nation in discussing and developing what plans would make sense in keeping the Credit Union Industry viable. This current proposal does nothing of the kind and is detrimental to the Credit Union industry.

Responding to Chairperson Debbie Matz's comments about credit unions "having an appetite for greater risk," I wish to point out that all financial institutions are in the business of risk; calculated risk, and not arbitrary risk. I wish to point out that natural person credit unions did not create the financial problem we are currently faced with. Fault lies with all regulatory agencies that turned their backs commencing in the mid-nineties when the White House and Congress pressed lenders to be more lenient with their lending policies. It was Wall Street, having the appetite for greater risk, along with major brokerage houses and large commercial banking houses that started the problem, and again without regulatory oversight, was in a sense a go-ahead signal to start the process in igniting a false economic bull market that eventually collapsed the financial market, and we all know the remainder of the story.

The weights imposed upon credit unions is not fair and appears excessive, given the weight given towards commercial banks under Basel III (Third Basel Accord), which are more lenient. I would like to know why the weighted factors for investment portfolios are greater for credit unions than they are for commercial banks, as high as 200% versus only 50% for banks. Why is the weighted factor for first mortgage loans twice that for commercial banks, having a 50% weight versus 100% for credit unions? Why is the weighted factor for second trust deed loans 50% higher for credit unions than for banks? Why are commercial business loans for credit unions 100% high than for banks, weighted only at 50%? Was every lending and investment factor considered in developing this proposed model; i.e., variable rate investments versus fixed rate investments; variable rate real estate and commercial loans versus fixed rate mortgage and business loans, variable rate equity lines and second trust deeds that re-priced annually, and on the liability side of the balance sheet, funding those programs through intermediate and long term certificates of deposits to the members, as much as ten years long for credit union with a strategy in focusing in the mortgage markets. I looked at your model on the web, and it does not appear to answer these questions. Yes, commercial banks have some strategic advantages in managing interest rate risk via their short and intermediate term lending programs, but this does not mean that credit unions cannot engage in such activity as well in mitigating interest rate risk. As for the 12 to 18 months implementation plan, well, this is simply far too quick for this flawed plan.

If the NCUA is really a steward of the Credit Union industry, then you need to step back, and ask for greater input from credit union banking professionals and financial engineers in how to develop a model that benefits the Credit Union industry for the long-term survivability of this industry. If not, I will guarantee you that in time, this industry will vanish, leaving only the commercial banking industry for an unwary consumer only wanting competitive products and pricing for their banking needs. Since 1990, this industry has declined from just over 13,000 credit unions to just around 6,000 today. Natural Person Credit Unions need a good steward who is looking out for them, and the members they serve.

Respectfully submitted,

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