May 23, 2014

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

RE: Comments on Proposed Rule: PCA - Risk-Based Capital; RIN 3133-AD77

Dear Gerald Poliquin,

Bay Federal Credit Union is a federally chartered credit union serving the communities within the counties of Santa Cruz, Monterey, and San Benito. We have over 55,000 Members and $700 million in assets. Bay Federal Credit Union appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action – Risk-Based Capital.

Bay Federal Credit Union supports and commends NCUA for taking the first steps to modernize capital standards through the implementation of Risk Based Capital (RBC) for credit unions. However, we believe that the current proposed regulation must be revised as over the long-term it may negatively impact the credit unions ability to effectively serve the membership. The following are concerns that we have with the proposed regulation:

1) The subjectivity in which NCUA can assign a lower Capital rating outside of the formulaic method is concerning. If NCUA is implementing Risk Based Capital standards and respective methodologies to quantify risk then the two current measurements proposed should be sufficient in determining the capitalization status of a credit union. Any additional concerns should be addressed through the examination process. Recommend removing the ability to subjectively adjust the capitalization status.

2) The proposed risk weighting of 250% for CUSO's is not reflective of the actual risk of investing in CUSO's. Recommend capping the risk weighting at 100%

3) The proposed risk weightings on investments are biased towards interest rate risk and not credit risk. This rule would unfairly penalize credit unions that have sound risk management programs in place to manage interest rate risk. The proposed risk weightings are also inconsistent with Base III requirements for Banks under $15B. Recommend adopting the FDIC risk weightings for investments.

4) Limiting the Allowance for Loan and Lease Losses (ALLL) to 1.25% of the risk weighted

assets numerator appears to be an arbitrary limitation. With accounting conventions more than likely moving to a "life-of-loan" estimate, the current methodology fails to recognize this. Since credit unions generate capital through earnings, if earnings are re-directed to fund the ALLL while not being counted towards capital, this could have a significant impact on growth and ongoing initiatives. Recommend to include the entire ALLL balance in the Capital calculation.

5) Deducting the NCUSIF deposit suggests that the deposit is worthless. While this is not the case as the funds would be returned due a conversion or used to cover first losses in the event of liquidation. Recommend, not to deduct from capital or risk weighted assets.

6) The proposed rule on non-delinquent first mortgage real estate loans is inconsistent with Basel III requirements for banks and does not take into consideration important risk attributes such as loan-to-value ratios, credit scores, or types of loans. It appears that like investments there is the introduction of an interest rate risk component and would penalize credit unions that have larger mortgage portfolios and are employing sound interest rate risk management practices. Recommend applying one standard risk weighting to this category.

7) The proposed rule on mortgage servicing assets is excessive and coupled with the proposed rule on non-delinquent first mortgage real estate loans could significantly impact a credit union's ability to provide mortgage services to its members. First, the proposed rule on non-delinquent first mortgage real estate loans penalizes a credit union for maintaining a larger concentration of mortgage loans and then it is penalized when selling those loans for risk management purposes by applying an excessive risk weighting for mortgage servicing assets. The proposal appears contradictory. Recommend setting the risk weighting at 150 percent.

8) The proposed rule on excluding goodwill from the calculation of the RBC numerator could significantly affect the economics and ability of a credit union to merge. Recommend adding goodwill back into the numerator.

9) A 3-year implementation period would be more appropriate allowing time for credit unions to raise capital through retained earnings or make changes to their operations.

Under the proposed RBC regulations Bay Federal Credit Union would continue be a well-capitalized credit union. Over time, the excessive risk weightings, may limit our ability to continue to serve our members in all capacities. This is a serious concern for us and we ask the NCUA to re-visit the key areas addressed and make the appropriate adjustments to the RBC calculations in keeping with the spirit of Basel III.

Thank you for the opportunity to provide comments on this proposed rule and considering our views on RBC requirements.

Sincerely,

Rick Weiss
CFO
Bay FCU

cc: CCUL