May 27, 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,

I am writing on behalf of the Board of Directors and Executive Team of NuVision Federal Credit Union as well as the 88,000 members we serve. We are a federally chartered and insured California credit union with $1.3 billion in assets. Although our credit union is well capitalized, and would remain so under the proposed risk-based capital limits, we have significant concerns regarding the rule as proposed.

We believe the proposed rule will have the unintended consequence of legislating a change in the highly competitive financial services industry that negatively impacts credit unions and our members. The prolonged economic recovery has been hindered enough by reactive overregulation and legislation, and this rule only further hinders our nation's credit unions ability to help turn the tide.

Beyond the issues we have deemed inherently wrong within the proposed regulation, we find the comment period of only 90 days for quite possibly the most impactful regulation coming from the NCUA since Prompt Corrective Action as much too short. Credit unions and our trade groups have requested an extension of the Comment Period multiple times, not as a delay tactic, but as a means to allow more members, credit unions, leagues and trade groups to weigh in on the proposal and consider its possible impacts to their operation today and their strategic plans for the future. Additionally, by extending the Comment Period our elected officials responsible for drafting and amending the Federal Credit Union Act will have more time to listen to their constituents and determine whether the NCUA even has the authority to enact this rule.

The NCUA has historically been very responsive to the input received from the industry, but this proposal changes the manner in which we measure and manage multiple risk factors; all of which are being addressed by interest rate risk, liquidity risk and concentration risk regulations enacted by the NCUA prior to and since the Great Recession. Our desire is that you table this entire proposal in lieu of proper enforcement of current risk control regulations and a time when a more appropriate risk-based capital rule can be drafted specifically for the credit union industry. If that option is not acceptable and the NCUA does in fact have the authority to enact the proposed regulation, then we request you consider the following points before finalizing the rule:

Alter the Risk-Based Capital Requirements:

Current risk-based net worth ratios are already sufficient and higher risk-based capital ratios are not necessary as evidenced by the performance of the credit union industry throughout the Great Recession. The 10.5% minimum risk-based capital requirement for a well-capitalized credit union equates to what Basel III requires of banks by the end of their three-year capital conservation buffer phase-in period. Our credit union will realize a 9.6% increase in our buffer above the "well capitalized" threshold under the proposed rule, but due to the punitive risk-weights of certain assets in our balance sheet our dollar threshold buffer actually decreases by 28%. This result of the proposed rule effectively forces us to overcapitalize and will affect how we strategically choose to serve our members in the future, slowing our growth and negatively impacting our ability to play a positive role in this long economic recovery.

Extend The Phase-In Period of 18 Months:

This phase-in period is unreasonably short and will cause an excessive burden on credit unions who are negatively impacted by the unnecessary changes within the rule. The 18-month phase-in period will allow credit unions little time to build necessary capital and alter strategic plans to move into lower risk weighted lines of business to maintain their current risk-based capital status. Credit unions holding longer-term investments and real estate portfolios may be forced to reallocate assets during this extended low rate environment to the detriment of ongoing earnings. The phase-in period should be extended to at least coincide with the three year period banks are being provided to build their 2.50% risk-based capital buffer (2016 to 2019), but five to nine years is preferred to match the timeframe smaller banks are being allowed under Basel III.

Significantly Alter the Risk Weights for First Mortgages:

As proposed, the risk weighting applies arbitrary and unsupported concentration limits, which further complicate the rule and discourage our credit union from lending to our members with mortgage needs. Curiously, no consideration of interest rate risk is included in this risk weighting when many credit union have now added adjustable rate mortgage loans to their portfolios to offset the riskier of longer-term fixed-rate mortgages. Our analysis shows that increasing our mortgage portfolio by a mere 1.5% would result in a 12.6% decrease in our risk-based capital buffer. The California and the Los Angeles and Orange County economies rely heavily upon mortgage lending for future growth and economic vitality and this rule effectively discourages our credit union from further participation in the economic recovery of this region. We strongly urge you consider adopting the Basel III risk weights for first mortgage loans of 50%, regardless of concentrations.

Significantly Alter the Risk Weights for Member Business Loans:

Although member business loans are currently limited to 12.25% of assets, we have invested significant efforts to move Congress to increase this limit to improve our ability to serve our members and the communities we are in. The proposed limits discourage further efforts to move legislation forward and severely penalize credit unions currently operating with higher MBL limits. If our credit union were to increase MBLs up to the 12.25% cap at the proposed 100% risk weight we would see an 11.7% reduction in our RBC buffer. Member business lending is one of the greatest opportunities for credit union industry growth, and any measure discouraging us from serving this need will hinder our ability to grow capital and serve our members. We strongly urge you consider adopting the Basel III risk weights for member business loans of 100%, regardless of concentrations.

Significantly Alter the Risk Weights for Investments:

The proposed risk weights for first mortgages and member business loans are overly restrictive as written, but the risk weights for investments are punitive. Compared to the Basel III risk weight of 20% for all GSE bullets and MBS, credit unions are being strongly discouraged from holding anything but cash and Treasuries of any term; even building a short-term bullet ladder is discouraged. This measure ignores the credit risk component of the underlying collateral and focuses almost entirely on interest rate and liquidity risk, which have already been adequately addressed in previous NCUA rules. If our credit union were to move $50 million in short-term investments to longer terms to capture additional yield, even in a GSE or implied US Government guaranteed MBS we would realize a 29.3% decrease in our risk-based capital buffer. We strongly urge you consider adopting the Basel III risk weights for GSE bullets and MBS of 20%, regardless of duration.

Eliminate or Limit the Ability for the NCUA to Increase Risk-Based Capital Requirements for an Individual Institution:

This component of the proposed rule is quite possibly the most unsettling and we strongly urge the NCUA to remove it entirely or revise it significantly. The measure as written invites subjective rulings that may hinder an institution's desire and ability to innovate, and creates a business environment based more on risk aversion rather than evenly weighing risk mitigation with growth of capital and expansion of market share. An acceptable measure would include checks and balances to ensure any increased risk-based capital requirements are applied equitably, consistently without personal bias and with a strong provision for due process or outside party evaluation.

Recognize Credit Unions for Implementing Interest Rate Risk Mitigation Measures (FHLB Advances or Derivatives):

Federal Home Loan Bank advances and basic derivatives can be employed by credit unions to manage interest rate risk, but neither are given any value in the proposed rule for credit unions effectively utilizing them. These tools can be specifically designed, implemented and tested for the unique business needs of a credit union by qualified in-house professionals or third parties offering significant experience and expertise. These measures should be considered before an examiner imposes increased risk-based capital requirements on an individual credit union due to higher-risk concentrations or lines of business.

Give Credit for the Higher Quality of Credit Union Assets (lower historical loss rates than banks on similar asset categories) :

Rather than recognize the credit union industry for their strong asset quality over banks, the NCUA has developed a risk-based capital framework that penalizes our industry. Over the past 15 years, credit unions have maintained an industry average net worth of over 10%. Through the Great Recession we had very few foreclosures and even the head of the CFPB recognizes that we should not expect to see similar conditions in the foreseeable future and expects the industry to perform well in a more normalized economic climate.

Eliminate Proposed Treatment of NCUSIF Deposit:

Should the rule go into effect as drafted, effectively causing the credit union industry to be overcapitalized by approximately $7.3 billion, the NCUSIF Deposit would have even more value as an asset not less, and would be much less likely to sustain losses. The fact that the NCUSIF Deposit is a valuable asset of the credit union, although the corporate credit union meltdown and industry funded bailout cast some doubt on this, it is not the property of any other entity. By excluding the NCUSIF Deposit from the risk-based capital calculation entirely takes us a step closer to treating the asset as an expense similar to the manner in which banks have accounted for their funding of the FDIC. Can the credit union industry withstand a one-time $4.6 billion expense during this slow recovery, while at the same time address the proposed rules call for overcapitalization? This clear and defining difference between the credit union industry and banks should be maintained, and the NCUSIF Deposit should not be excluded from the calculation of a credit union's risk-based capital, but treated like other illiquid assets.

NuVision does not support the proposed risk-based capital framework as it takes the natural 26 year evolution of the Basel Capital Accord and applies it to credit unions using punitive risk weights, unsupported and arbitrary concentration limits and ignores the fact that we are a closed financial services system player where capital is vital, and in this economy a challenge to build. Should the NCUA move forward with this proposed rule, we hope the NCUA gives strong consideration to aligning the risk weights for first mortgages, member business loans and investments with those included in Basel III for small banks. We also hope the NCUA adjusts the risk weights to accurately reflect the credit union industry's historically strong asset quality and capital positions relative to the banking industry. The credit union industry recognizes that because of our less than 10% overall market share we are in a constant struggle to keep ourselves relevant to our members, without significant revisions to the proposed rule, the NCUA will effectively make our position more challenging and limit the options we are able to offer to our members and play a positive role in the economic recovery of our communities and cities we serve in.

On behalf of the Board of Directors and Executive Team of NuVision Federal Credit Union, I want to thank you for the opportunity to comment and your consideration of the views of NuVision Federal Credit Union. Please contact me with any questions or for clarification concerning our comments.

Sincerely,

James McHale
CRO
NuVision FCU

cc: CCUL