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,

Coast Central CU appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action - Risk-Based Capital. Coast Central Credit Union has just over $1 Billion in assets and 60,000 members. Coast Central CU is open to those who live or work in the communities of three rural northern California counties.

We are very disappointed in the proposed Prompt Corrective Action rule as drafted and fear the proposal will accomplish what bankers have been trying to do for years, which is limit the growth and expansion of credit unions. By proposing overly restrictive capital requirements, with no mechanism to accept supplemental forms of capital, this proposal will be unbalanced.

With that said, Coast Central CU does believe in the concept of risk-based capital, that not all assets have equal risks. We strongly encourage you to rework this proposal since, 1) the risk-weights proposed in this rule do not relate to “real-world” risk experience at credit unions, 2) are poorly calibrated, and 3) are more restrictive than for other financial institutions; institutions which have seen greater losses.

We have asked ourselves, “Are these restrictive capital requirements even needed?” It is hard to say, “Yes” when the current PCA system has historically protected the share insurance fund; never dropping below $1.23 per $100 even during the last two, bubble busts. We also question NCUA’s authority to impose a risk-based standard on “well-capitalized” credit unions. As we understand it, we see neither statutory authority for NCUA to impose risk-based standards on “well-capitalized” credit unions nor the authority to impose an arbitrary examiner determined capital requirement.

As a community credit union, we have been voted the Best Credit Union, Best Bank, Best Real Estate Lender, Best Mortgage Company and Best Investment Firm in an annual poll conducted by the area’s daily regional newspaper, The Times-Standard. We have won this distinction for 13 years in a row by providing membership oriented services (be it car, home or business loans or deposits). If implemented, this proposal’s result would be to put the credit union at a competitive disadvantage- risking credit union (member) earnings, which is the sole source of capital formation. The proposed risk weights for residential mortgage loans, small business loans and long-term investments are double what our local community banks must have for the same concentration levels, even as our loss rates are less than half of community banks

(Credit Union Net Loan Losses as a Percent of Loans during the last seven years averaged 0.90% compared to Banks 1.62%.) Again is this rule necessary?

An example of this disadvantage will be seen in many communities where rental homes make up the majority of the housing stock. Under NCUA rules these homes are treated as small business loans, not residential mortgage loans as they are at community banks. The proposed risk weights would limit our ability to price these loans competitively in the market.

Another area of concern is the setting of higher risk weights for investments based on solely on final maturity in an attempt to contain interest rate risk. We see this provision as shortsighted as it does not take into consideration the many factors needed to determine interest rate risk. It assumes all long-term investments pose greater risks to capital- regardless of effective duration, the interest rate cycle or other risk mitigating factors. This simply is not the case. At Coast Central CU (with a Loan to Asset ratio below 50 percent) it is imperative for us to have long-term investments in our portfolio so that we can provide a constant competitive return to our members' deposits and retirement funds as well as produce sufficient earnings for capital growth. Investment risk weights should be based on credit risk.

Coast Central CU has worked hard over the many years to build a strong capital position, above and beyond the regulatory limits, to be able to provide for investments in the future and a cushion during economic turmoil. If this rule is implemented as proposed, the credit union's buffer to being Well Capitalized would drop 20%, which is the equivalent of two years of earnings. A high price to pay.

Finally, eliminate the provision for additional case-by-case capital requirements by examiners, it is simply too subjective. In my thirty-three years of credit union experience, I have seen and heard of too many incidents where an examiner's personal view or lack of experience overshadows or taints the exam process. Avoid this subjective scenario by eliminating this provision.

We believe in a risk-based approach to minimum capital requirements, but the proposal in the present form is not the solution.

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

Sincerely,

James Sessa
SVP Administration/CFO
Coast Central CU

cc: CCUL