STATE EMPLOYEES CREDIT UNION

May 26, 2014

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

Re: Comments on Proposed Rule: PCA – Risk Based Capital

Dear Mr. Poliquin:

I am writing on behalf of the management, staff and members of State Employees Credit Union of New Mexico. Located in Santa Fe, New Mexico, we are a well-capitalized, federally insured state chartered credit union over 37,000 members strong. We serve State of New Mexico employees and select residents throughout central and northern New Mexico and just surpassed $375 million in total assets. We appreciate the opportunity to provide comments on the proposed Prompt Corrective Action; Risk-Based Capital changes issued on January 23, 2014.

Although we acknowledge the need for appropriate capital to support the individual complexities of credit union balance sheets, we strongly feel that the proposed changes represent an undue burden on credit unions and can adversely affect our collective ability to serve members now and into the future. We urge you and the NCUA Board to reconsider this proposal in its current form, based on our observations of how this may affect SECU's ability to continue to provide our financial services in the New Mexico communities we serve. I have outlined some of our concerns in the following paragraphs.

Risk Weighting Inconsistencies

1) The proposed rule places a 0% risk weighting for Treasury securities and other debt instruments unconditionally guaranteed by the NCUA or the FDIC (technically insolvent) which seems inconsistent with the rule's intent to mitigate interest rate risk. To us, it would seem that some of these securities would have inherently more interest rate risk than shorter-term, amortizing mortgage pass-through securities and Collateralized Mortgage Obligations which have increasing risk weights commensurate with their average lives.

2) The proposed rule places a 20% risk weight on cash on deposit which would we would assume includes amounts held at the Federal Reserve, since those are not explicitly excluded from Category 2 assets. Larger credit unions likely place the bulk of their excess cash at the Federal Reserve as excess reserves, and generally receive a return greater than that available in the Corporate Credit Union Network. These credit unions would be penalized for holding excess reserves and the conclusion here is that there is more inherent risk in the Federal Reserve System than the United State Treasury.

3) The proposed rule assigns increasing risk weights for investment securities commensurate with their average lives.

Besides the fact that these risk weights are more onerous than those being phased in for community banks under the Basel III Accords, these weights could prevent a credit union from attempting to mitigate other, non-interest rate risks through securitizing or swapping held mortgages for GSE guaranteed mortgage backed securities. This is due to the inconsistency in the proposed weightings between loans and investments.

4) Member business loan and real estate concentration level Risk Based Capital increases do not consider portfolio management, underwriting standards, industry experience or quality of loans and the proposal could result in reduced overall diversification.

5) In general, there is little parity between the proposed risk weights and those being phased in for community banks under Basel III. There are escalating weights for mortgage concentration, reaching 100% for those credit unions holding greater than 35% of total assets. The bank risk weight is 50%. Similarly for other real estate loans, where the risk weight reaches 150% for a 20%+ concentration as compared to a 100% weight for banks. Strangely enough, the consumer loan weight is 25% less than the banks under the proposed rule. The disparity for investments has already been discussed above.

Other Items of Notable Concern

1) The proposed limit on amount of the Allowance for Loan and Lease Loss to total assets at 1.25% is questionable. As the cushion available for credit loss before capital is impacted, it seems the greater the cushion the larger the credit should be for these balances. This is particularly in light of proposed FASB changes that could require credit unions to increase their loan loss reserves.

2) If the intent of the proposed rule is to create comprehensive risk mitigation for all credit unions, it does not address the liability structure of the balance sheet at all. The liability structure of a credit union's balance sheet is critical to determining risks, such as liquidity risk and interest rate risk. The proposed rule appears to give no credit for institutions that actively manage their liability structure while at the same time not penalizing institutions that are not proactive in liability management.

3) It is curious that the proposed rule does not include the NCUSIF capitalization within either the numerator or denominator of the RBC calculation, which seems to question the value of this asset. Does the NCUA Board actually believe this asset has no value? If so, an accounting determination could be made that this balances should be expensed, which certainly would have a negative impact on every credit union.

4) It is somewhat disturbing that the proposed rule appears to give the field examiner the ability to subjectively override the standards set by the rule and set a higher minimum RBC for an institution they determine to be fundamentally not safe and sound due to the risks the rule is attempting to address. Wording in the proposed rule state that only the NCUA Board by reclassify a credit union and that the Board may not delegate this authority.

5) In Chairman Matz's response to a joint letter from Bill Cheney of the CUN A and Dan Berger of NAFCU denying their request to extend the comment period, Ms. Matz indicated that "in the past two years, we have been working carefully and diligently on this proposed rule, exhaustively reviewing multiple scenarios, and balancing the myriad of sometimes competing factors required to produce a good public policy outcome."

According to the rule once it is finalized, credit unions will have 18 months to position their balance sheets to come into compliance. If the NCUA Board struggled for at least two years to come up with the rule, why wouldn't credit unions be given at least two years, and even more, to come into compliance? Potential risk mitigation strategies available under the current rule may not be available under the proposed rule and a non-compliant credit union could actually look worse. These credit unions would potentially have no choice but to shed specific assets which could reduce their current net worth ratio through losses while reducing their current income streams limiting their ability to increase net worth. Even the banking industry has until 2018 to come into compliance with Basel III. Why not extend the same consideration to credit unions?

In conclusion, State Employees Credit Union asks the NCUA Board to seriously reconsider the proposed rule. There are too many inconsistencies within the proposal that could serve to handcuff well-run institutions and limit our ability to proactively serve our members and the communities in which we operate. There is little parity between the proposed rule and the Basel III standards set for banks and the proposed implementation phase in period is too short for many potentially non-compliant institutions. In fact, many institutions may just choose to give up and merge or liquidate which serves no purpose and may eliminate access to financial services to the underserved.

Sincerely,

Mark Sadowski

Mark Sadowski
Chief Financial Officer
State Employees Credit Union
Santa Fe, New Mexico