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,

Introductory paragraph:

I am writing on behalf of Valley Oak Credit Union, a state chartered, federally insured credit union which serves residents of Tulare and Madera County California as we well as several special employment groups in Kings and Fresno County California. We have 6,700 Members and 47 million dollars in assets. Valley Oak appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action – Risk-Based Capital.

Letter Body:

The current Risk Based evaluation methods used by the NCUA served well during the recent financial crisis. While this would be a great time to review and potentially improved the Risk Based evaluation methods this proposal has some areas which are very concerning. An easy to understand and useful Risk Based evaluation should benefit both the NCUA and all federally insured credit unions, however this proposal seems to benefit only the NCUA.

This proposal would not affect Valley Oak based both on our asset size and the current composition of our balance sheet. That does not mean we are not concerned about the consequences of a proposal which would potentially change our ability to manage our balance sheet when our credit union is large enough to have the this proposal applied. In addition, the ability for examiners to subjectively change capital requirements is something we cannot support.

No two financial institutions are going to have exactly the same risk profile. While the NCUA may need ways to offset the perceived risk of a credit union which are not quantifiable by formula driven metrics, having the ability to change the capital requirements subjectively is very big concern to us. Capital is capital plain and simple. The application of a risk weighted capital standard may help NCUA determine riskiness within a credit union. If the NCUA wants to change the capital requirement based on a risk weighting then develop rating standard for capital required based on measurable information.

The risk weightings in the current proposal seem to be overly generous in some areas and extremely limiting in others. In addition, some of the categories seem to very considerably when compared to the standards required by other financial institutions. While credit unions are unique in many ways, risk to a balance sheet should be basically the same for credit unions as it is for banks. When there are deviations the NCUA should clearly state why and how they developed their reasoning for the deviations.

Why is the NCUA excluding the NCUSIF from the risk based calculation? It seems since this would be used in the event a credit union would be liquidated it only makes sense to include this deposit when calculating the risk of a credit union and since the investment in the NCUA would not be considered risky it should help credit unions in the risk based rating.

Do you agree NCUA should be able to restrict dividend payments as the proposal would provide? Why is the NCUA including additional restrictive powers in the risk based capital proposal? Restriction of dividends should only be based on lack of income not based on a risk evaluation. The current restrictions for dividend payments available seem to be adequate so there is no need for this item to be included in the proposal.

Do you agree with NCUA's implementation time line? If not, how much more time should credit unions be provided? Implementation of a new risk based standard should be done in phases. There is no need to rush this type of change. Our credit unions are still recovering from the recent financial crisis a crisis which we survived due in part to our capital levels. Any credit union who is still here after one of the worst financial crisis deserves an implementation time line of three to five years should a change be made to the risk based capital standard.

Summary of your position:

The NCUA is wise to review the events that led to the financial crises and to use what it learned to set new thresholds to protect the members of credit unions from potential credit union failures. Including risk based capital in this review and proposing new standards is prudent and quite probably warranted based on the number of credit unions that failed during the crisis. In my opinion this risk based capital change as it is currently proposed is not what is needed to improve the safety of credit unions. It appears to me that this proposal would actually encourage some of the largest credit unions to seriously consider converting to a bank rather than meet a risk based capital standard that can be subjectively changed or limits a credit union's ability to actively serve its members by restricting its ability to manage its balance sheet.

Closing paragraph:

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

Sincerely,

Alan Cortum
President/CEO
Valley Oak CU

cc: CCUL