PACIFIC COMMUNITY
CREDIT UNION

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

RE: Proposed Risk-Based Capital Rule

Dear Mr. Poliquin,

Pacific Community Credit Union (PCCU) appreciates the opportunity to comment on the proposed rule. PCCU is a $190 million well capitalized state chartered credit union serving the financial needs of over 11,000 members.

While we agree with the concept of a risk-based capital structure for credit unions, we do not believe the proposed rule would serve the industry well or meet the stated goal of the rule itself of "helping the NCUA to identify, and credit unions to avoid, inadequately capitalized concentrations of assets classes that can lead to a credit union's failure."

We have the following concerns.

Parity with Banks

Risk-based capital is appropriate, but the requirements for credit unions shouldn't be more restrictive and punitive than they are for U.S. banks and any other financial institution in the world under the Basel III framework. This places credit unions at a competitive disadvantage and will result in a reduced ability for credit unions to lend to their members and communities.

Individual Minimum Capital Requirements

The proposed rule gives NCUA authority to require even higher capital for individual credit unions. This highly subjective element should be stricken from the rule. If it is not eliminated, it should at least be clarified to state an examiner may recommend an increased minimum capital requirement to the Regional Director for review and concurrence, and should the Regional Director concur, they must then refer it to the NCUA Board for approval. In addition, there should be an independent appeals process.

One Size Fits All Approach

Each credit union has its own unique risk profile and strategy; there is no effective way to standardize risk-weightings for all credit unions. Likewise, not all mortgages, auto loans, etc. are created equal. Applying the same risk weightings to categories of loans without

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regard to actual credit risk is not helpful. We are concerned that such an approach will have severe unintended consequences and effectively work to stifle growth in well run credit unions without effectively identifying risk.

Allowance for Loan and Lease Losses

The Financial Accounting Standards Board (FASB) has issued a proposed new accounting standard intended to establish a forward-looking process for estimating reserves for credit losses associated with financial instruments. The proposed rule incents credit unions to limit their ALLL balance to 1.25% of total risk assets because a capital credit will not be allowed beyond this limit. The rule should consider the impact of the new FASB proposal and allow credit for the entire ALLL balance if determined through Generally Accepted Accounting Practices (GAAP).

Implementation Period

The rule allows only 18 months for credit unions to come into compliance. Banks have been allowed five years to comply. The time required to restructure balance sheets without causing undue disruption to a credit union's operation should be considered and allowed to occur over a five year time frame.

NCUSIF Excluded from Calculation

The NCUSIF should not be excluded from the calculation. Excluding the NCUSIF deposit from both side of the equation reduces the capital ratio without regard to risk considerations. The rationale for this requirement is not apparent.

Liability Side of the Balance Sheet

Liability management has been left out of the equation. Interest rate risk and liquidity risk are directly affected by liability management. Ignoring this side of the balance sheet does not seem to be effective risk management.

Risk Weightings

The NCUA has not provided empirical data for how the various risk weighting were determined. A regulatory rule of this magnitude must be based on rational, well-documented data supporting the conclusions used to set the risk weighting of the various asset categories.

As proposed, we believe the rule may reduce short-term risk at some individual credit unions but would not help to reduce systemic, long-term risk for the industry in general. As such, we request that the rule be significantly rewritten with input from the credit union industry.

Thank you for the opportunity to comment on this proposal and for considering our concerns and views.

Sincerely,

Kevin Pendergraft
President & CEO
Pacific Community Credit Union