May 28, 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 Santa Cruz Community Credit Union, which is a certified community development credit union serving low income populations and small businesses in Santa Cruz County and the northern most areas of Monterey County. We are $105 MM in assets serving approximately 11,000 members. Our Board of Directors and our management team have studied and discussed the proposed NCUA rule, PCA - Risk-Based Capital, and we appreciate the opportunity to provide comments to the NCUA.

We are respectfully requesting that you reconsider your proposal as there are several areas of grave concern regarding the changes being proposed. These include the following:

**1) Individual Credit Union Capital Requirements:**

- Proposed capital requirements are substantially higher than previous plans and the risk weighting are too broad to accurately capture risk.

- Santa Cruz Community Credit Union's capital including our secondary capital provides us with a cushion today, over well capitalized equal to 136 basis points on total assets. Under the proposal, the cushion over well capitalized would decline to 107 basis points on total assets and would cause a -29 basis point change over well capitalized levels.

- New capital requirements have an alarmingly short 12-18 month implementation period; significantly shorter than the capital implementation periods being proposed for community banks.

- Santa Cruz Community Credit Union has a secondary capital loan from the Treasury Department and we are on track to pay off that loan in roughly four years, prior to the loan rate change of 9%. If capital requirements are implemented as proposed, including the shorter time frame for implementation, it will dramatically impact our capital health, moving our capital goal further into the future. NCUA and our California State DBO must approve the payoff of the secondary capital which would likely be denied under the NCUA proposal. Therefore the 9% rate increase impact to our credit union may reverse our progress and slow our health.

- The new capital requirements will change the industry forever. If implemented as proposed, we will likely see an increase in mergers and further shrinkage of the credit union industry. Smaller credit unions--*who have survived one of the worst economic crises in history* –will give up and close their doors, while many larger credit unions may convert to the friendlier bank capital rules.

**2) NCUA Field Examiner Authority**:

- The proposed rule allows examiners in the field to determine a higher capital requirement based on their individual assessment of any individual credit union. This issue of individual and possibly arbitrary decision making from NCUA examiners in the field has been an ongoing issue as noted clearly by Debbie Matz during the "NCUA Listening Sessions" of 2012. Individual examiner decisions were not always consistent with NCUA's strategy and plan, creating regional impact to credit unions in many parts of the country. Debbie Matz pledged to the audience at the San Diego session her understanding of this issue and the focus of NCUA to be more consistent from top to field.

**3) Risk weighting:**

- These proposed risk weightings do not appear to be calibrated for credit unions. Higher risk weighting on long-term assets to offset interest rate risk (IRR) does not consider liability maturities. Tranches are based on weighted average life of investments rather than the type of investments. Additionally, the 250% risk weighting for CUSO investments assumes all CUSO investments are risky and treats all CUSOs the same.

- Further concerns are that the weighting is heavily focused on mortgage and member business loans which are <u>inconsistent with Basel III.</u> In addition, the risk is based on loan type without a review of the loan portfolio. Not all underwriting is created equal. To require higher risk and higher capital simply because a loan is an MBL, even if it is guaranteed by SBA or another entity, is inconsistent with the real risk as well as the vision of the current Obama administration which is focused on small business lending and creating jobs. Government Guaranteed Loans guaranteed by the full faith of the federal government should be weighted for premium risk, not as simply a member business loan.

- At Santa Cruz Community Credit Union, I have assembled a very tenured and conservative business lending staff for the sole purpose of the credit union's mission in the community. In light of receiving a CDFI grant for business loans and job creation, the risk rating thwarts these efforts to re-ignite the economic development of our communities.

<u>**In closing, I have the following recommendations:**</u>

1) Eliminate from the proposed rule, NCUA's authority to require an individual credit union to hold even higher levels of risk-based capital on a case by case basis.

2) Adopt the Basel III system rather than trying to create a new, untested system. The NCUA has proposed something different that is not well explained and appears arbitrary.

3) The NCUSIF deposit is an asset of the credit union and should not be deducted from equity in the RBC numerator.

4) Establish a 5 year minimum implementation period for new capital requirements rather than 12-18 months.

5) Modify the rates/terms of secondary capital loans held by community development credit unions, or provide an alternative, to ensure the health of these organizations with the implementation of new capital requirements.

6) Reevaluate the risk weightings for lending and investments. If not reevaluated and applied more appropriately, these could continue to shrink the lending ability of all credit unions, further damaging all credit unions' abilities to make loans, increase income and become more sustainable.

7) Re-evaluate the RBC numerator that limits ALLL to 1.25% of risk assets. Coming out of the economic crisis, NCUA encouraged larger ALLL balances. The FASB proposal on accounting for credit losses will probably result in even higher ALLL balances. Unfortunately, this proposal will penalize a credit union for high ALLL.

While I understand that our economic crisis revealed new risk in financial institutions across America that was both alarming and unsettling, the credit union industry as a whole has survived, is surviving and improving every day under the current Risk-Based Net Worth system. In fact, Santa Cruz Community Credit Union had 25% loan growth in 2013, finishing the year with a 1% ROA, and we are well on our way to reaching our capital goals. However, the NCUA proposal appears to thwart the recovery effort of credit unions nationwide. I would urge the NCUA to consider a compromise that would provide a more logical and less reactive approach to risk that will support the health of the credit union industry.

Thank you.

Sincerely,

Elizabeth Carr
CEO
Santa Cruz Community CU

cc: CCUL