

From: [Ed Greenwald](#)
To: [Regulatory Comments](#)
Subject: NCUA Risk-Based Capital Proposed Reg
Date: Wednesday, May 28, 2014 1:20:58 PM

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

Dear Mr. Poliquin:

I currently serve as Inland Valley Federal Credit Union's (IVFCU) Board treasurer. IVFCU is a low income designated credit union that serves the underserved area including the cities of Fontana, Rialto, Colton, Bloomington and Muscoy CA. We have 3,400 Members and \$39 million in assets. While we are not currently subject to the rule as written, we anticipate growing as we continue to adhere to the principles of serving our community. I appreciate the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule regarding Prompt Corrective Action - Risk-Based Capital. I understand the underlying reason for risk-based capital principles and don't oppose the concept of establishing a risk based capital system. However as currently drafted, I feel strongly that the proposed rule has several flaws that will severely harm the credit union industry by creating a significant competitive disadvantage in the market place. Additionally, I believe the ultimate outcome will restrict credit union options to structure individual balance sheets to match unique membership areas and needs. I respectfully submit comments on the following sections of the proposed rule.

Risk-based capital is appropriate, but the requirements for credit unions should not 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 serve their members and communities.

The proposed rule gives NCUA authority to require even higher capital for individual credit unions. I disagree with the addition of a subjective component to an objective calculation. Additionally, I have concerns of inconsistent application when adding a human component, especially when a credit union's examiner changes. It would be extremely difficult to run a business when discretion changes from exam to exam. Therefore, I recommend this section be stricken from the final rule. I also have concerns about the adequacy and equitableness of a system where the appeal process remains within the examiner's chain of command; appeals should be reviewed and mediated by an independent party.

I have concerns about the risk weighting in several areas of the calculation as proposed and believe these areas need to be given further serious analysis with an eye towards reduction of their weighting to better reflect risk relative to other areas of the balance sheet. These areas include but are not limited to: term investments, asset backed investments, and CUSOs. In addition, I believe the calculator should not remove the NCUSIF deposit from the numerator nor limit the Allowance for Loan Loss component. Finally, I am concerned that the proposal contains no consideration for liability structure which is a foundational component of ALM analysis.

Congress never intended for NCUA to set up a risk-based capital standard for well-capitalized credit unions. The FCU Act directs NCUA to devise a risk-based requirement, but the risk-based component for the well-capitalized threshold can be no higher than the component for the adequately capitalized level. Under NCUA's proposal, however, that is not what would happen. This goes against the current FCU Act and system of Prompt Corrective Action.

In conclusion, we would support a sensible, lawful approach to risk-based capital requirements; however, I believe this proposed rule will do more harm than good. Additionally, the 18 month time frame before the rule goes into effect is too short to allow credit unions to study the rule, formulate a long term strategy and re-shape the balance sheet appropriately. I propose that any risk-based capital calculator be considered as an examiner's modelling tool initially, followed by a study on the effects

before any requirements be imposed with PCA implication on credit unions.

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

Sincerely,

Ed Greenwald
Treasurer
Inland Valley Federal Credit Union