SAN BERNARDINO SCHOOL EMPLOYEES
FEDERAL CREDIT UNION

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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 am writing on behalf of the 5,700 members, 21 employees and 12 volunteers of San Bernardino School Employees Federal Credit Union. SBSEFCU is a $67 million institution owned by education employees in the southern California counties of San Bernardino, Orange, and Riverside. SBSEFCU appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule regarding Prompt Corrective Action – Risk-Based Capital.

My credit union generally supports risk-based capital principles. The capital levels of financial institutions should reflect the riskiness of the assets on the balance sheet. However, we feel strongly that the proposed rule, as currently drafted, will severely harm the credit union industry by creating a significant competitive disadvantage in the market place. We respectfully submit the following comments on the proposed rule.

Parity with Banks

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 more punitive risk weightings being proposed by NCUA do not reflect the generally conservative nature of credit union assets compared to banks. Chairman Matz recently (May 2014 NCUA Report) stated that 102 credit unions failed during the recent economic crisis and that $26 billion was needed from the NCUA's Central Liquidity Facility and the U.S. Treasury to restore the credit union industry. The vast majority of losses to the industry were due to corporate credit union failures caused by excess risk taking in their investment portfolios. The capital requirements for corporate credit unions have already been adjusted to restrict similar behaviors in the future. The failures of nature person credit unions during the past several years, while regrettable for the industry, represent a fractional component of the industry's losses, and pale in comparison to that of the banking industry. What data suggests that the asset risk weightings for natural person credit unions be more restrictive than for banks?

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, an independent third-party should be established to mediate any appeal between a credit union and the NCUA; the NCUA should not be the examiner, the regulator, and the "appealed to" entity.

NCUA is exceeding their authority

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.

Arbitrary Limit of Asset Size as a Risk Characteristic

The exemption of credit unions under $50 million from this proposed rule is completely contrary to the reason such a rule is being drafted. If the purpose of the proposed RBC rule is to more closely match the inherent risks in the balance sheet assets to the capital levels; what difference does asset size make? I have been the CEO of a credit union with assets under $50 million dollars and I certainly do not want those institutions included in this regulation, but it makes little sense to have an asset size limit included in a rule related to risk based capital. There are small institutions that carry more balance sheet risk than SBSEFCU. There are also small institutions who manage balance sheet risk better than any large credit union. The point is that asset size alone should not be a factor in considering whether or not a credit unions risk profile is complex. This proposal is just another reason that more time needs to be taken and more input from credit union leaders needs to be considered.

In conclusion, we would support a sensible, lawful approach to risk-based capital requirements; however, this proposed rule will do more harm than good—creating a huge competitive disadvantage. I recently read that the American Customer Satisfaction Index just scored the credit union industry at the top of the annual review of consumers most appreciated industries. Credit unions across the country are doing wonderful things each day to improve the financial lives of our members. The risk based capital rule as it is currently proposed will harm our ability to serve members now and long into the future.

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

Kindest Regards,

Kevin Posey
CEO