SkyOne FEDERAL CREDIT UNION

14600 Aviation Boulevard Hawthorne CA 90250
800.421.7111 www.SkyOne.org

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 SkyOne Federal Credit Union which serves the air transportation industry. We have 34,000 Members and $432 million in assets. As always, we appreciate 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. These do need to be reviewed, evaluated, and updated. 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. Because of the overcapitalization that the proposal would require, credit unions would see their asset growth decline over the long term, resulting in lower national economic growth. In addition, the proposal's risk weightings are mis-calibrated in a number of areas, such as mortgage loans, mortgage servicing rights, member business loans, and CUSO investments. Also, the NCUA should not require credit unions to exclude the 1% NCUSIF deposit or goodwill in calculating their RBC.

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 altogether. We do not even recommend that an independent third-party be established to mediate any appeal between a credit union and the NCUA. This subjective portion of the regulation as written will cause issues with disparate treatment among natural person credit unions and should be completely removed.

The proposal ignores or contradicts the FCU Act in a number of significant areas. The most egregious deviation from the FCU Act is that the proposal would impose a higher RBC requirement on well-capitalized credit unions than it would on adequately capitalized credit unions. That is not permissible under the FCU Act. Most of the negative financial impact of the proposal would result because of the impact on capital buffers that well-capitalized credit unions would experience.

The risk-based requirement for a credit union to be well-capitalized would provide very little benefit in reducing insurance fund losses compared to the risk-based requirement to be adequately capitalized. Since the goal is to protect the NCUSIF, the proposed 8% RBC requirement may support that objective,

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but the 10.5% well-capitalized requirement is wholly unnecessary to address risk in the credit union system.

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.

The proposal would apply to any federally insured credit union with over $50 million in assets (they would be "complex"). That definition contradicts the FCU Act because the agency must take into account credit unions' portfolios of assets and liabilities in defining "complex." The FCU Act does not equate the size of a credit union with complexity. Many more credit unions would come under the proposal than would otherwise if the definition followed the FCU Act and reflected credit unions' actual operational complexity.

Finally, NCUA's proposal should not attempt to address interest rate risk. NCUA already has a regulation on IRR management, credit unions generally manage IRR well, NCUA's approach would not measure IRR accurately and NCUA has provided no analysis to support its view that the proposal would measure IRR well.

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 for credit unions.

Thank you again for the opportunity to comment and for considering SkyOne's views on the proposed risk-based capital rule.

Sincerely,

Lourdes Ruano

Lourdes Ruano
CFO