SESLOC
FEDERAL CREDIT UNION

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May 27, 2014

National Credit Union Administration
Mr. Gerard Poliquin
Secretary to the Board of Directors
1775 Duke Street
Alexandria, VA 22314-6113

RE: Comments on Proposed Rulemaking for Risk Based Capital

Dear Mr. Poliquin,

We are writing on behalf of SESLOC Federal Credit Union, a $630 million community-chartered credit union serving 37,000 members in San Luis Obispo County in the Central Coast of California. Since the inception of this credit union 72 years ago, SESLOC has granted over 165,000 loans for over $2.2 billion dollars that have provided homes, vehicles, credit lines and small business loans that strengthen our community and fulfill member needs.

SESLOC is a well-capitalized credit union (8.70%) and would remain so under the proposed regulation. Like all credit unions, SESLOC supports strong risk management, and like the industry as a whole has effective programs in place to manage risks, e.g. Interest Rate Risk, Credit Risk, Concentration Risk, Vendor Risk etc. We believe that this hastily and poorly conceived Risk Based Capital regulation will not enable risk management that is superior to these models, and may in fact hinder sound balance sheet management.

We believe a number of the precepts of the proposal appear to be arbitrary, rushed, and perhaps an overreaction to the tough economic challenges faced since 2008. We are concerned that these proposed requirements will hurt the credit union system as a whole, put us at a disadvantage to the banks, and could ultimately impact SESLOC's ability to grant good loans in our community as we have done for over seven decades.

Areas of concern include –

- The perceived rush to implement these rules well in advance of the banking industry

- Creating standards higher than Basel III that are stricter for credit unions than those for banks, and not understanding the rationale/basis as to why this has been deemed necessary. It appears that our own regulators are labeling credit unions as more risky than banks

- The risk weightings assigned to Government Agency Securities, backed by the full faith and credit of The U.S. Government, seems inappropriate for the risk. You are assigning a higher risk weight to 3-5 year Agency Securities with no credit risk, than to a 30 year fixed rate mortgage, which has greater credit and interest rate risk. If the goal is to manage interest rate risk, we feel the use of an ALM model, which looks at the entire balance sheet, is more appropriate.

- A 20% risk rating for cash balances held at the Federal Reserve seems extreme, since the Federal Reserve has been designated as a source of emergency funds for the credit union system; the risk rating for the Federal Reserve should be 0%.

- The inconsistent and arbitrary risk ratings for credit union CUSOs, with higher risk for investing in a CUSO (250%) versus making a loan to a CUSO (100%). As an investor in The CO-OP and a customer of Autoland, we are concerned with the impact these rules will have on making credit union-owned collaborations less attractive than independent commercial vendors. This would potentially weaken our credit union system, and directly, our earnings from The CO-OP, which would cause a direct reduction in our own income.

- The provision that allows individual examiners to make the determination that a credit union needs additional capital. This delegated and arbitrary assignment of capital requirement calculation to a field examiner is, at best, frightening.

- The requirement to subtract Goodwill from Capital will make it very difficult to convince Credit Unions to merge with troubled CU's which would very likely lead to greater losses to the industry.

In summary, strengthening risk based capital and the financial system for banks and credit unions is wise. This proposal, however, has many flaws, is proceeding too quickly, and will have detrimental and lasting impacts that place credit unions at a disadvantage to banks. We urge you to take the time to re-evaluate and reconsider the risk thresholds included in the current proposal.

Sincerely,

Geri LaChance
President/CEO

John Baas
EVP/Chief Financial Officer