

**From:** [Tracy Arroyo](#)  
**To:** [Regulatory Comments](#)  
**Subject:** NCUA Risk-Based Capital Proposed Reg  
**Date:** Wednesday, May 28, 2014 5:59:22 PM

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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:

Thank you for providing the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule regarding Prompt Corrective Action – Risk-Based Capital. IVFCU is a low income designated credit union that serves the underserved area including the cities of Fontana, Rialto, Colton, Bloomington and Muscoy. 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 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 studied further. At the operational level, it seems the calculator assigns different risk weights to similarly acting classes of assets such as but not limited to, term investments and asset backed investments vs. loans. Furthermore, I believe that classifying all instruments in a board bucket can result in a calculated value which highly misrepresents the risk because of the characteristics within those buckets such as remaining

term length, rate type, and loan to value. Additionally, I believe the calculator should not remove the NCUSIF deposit from the numerator nor limit the Allowance for Loan Loss component and I am concerned that the proposal contains no consideration for liability structure which is a foundational component of ALM analysis.

Finally, I feel CUSOs are severely misclassified. IVFCU owns and participates in several CUSOs. These allow us to provide better services, prices and value to our membership by lowering our internal costs, increasing our efficiencies and allowing us to provide products that we could not afford without the CUSO. Much of our value to our members and the community is generated because of CUSOs. I fear that placing a higher risk weighting on CUSO investment allocations will restrict formation in the future. Member value, especially in smaller credit unions, will diminish. In many ways, our investments in CUSOs are the safest decision we make when all factors are considered including alternative costs.

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,

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