Pacific Crest
FEDERAL CREDIT UNION
Where You Belong

www.pacificcrestfcu.com

May 24, 2014

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
Alexandria, Virginia 22314-3428

Re: Comments on 12 CFR Part 700,701, 702, 703, 713, 723, 747 Prompt Corrective Action – Risk Based Capital

Dear Mr. Poliquin:

Thank you for the opportunity to comment on NCUA's proposed risk based capital (RBC) rule. I am writing on behalf of Pacific Crest Federal Credit Union, its board of directors, and over 15,000 members. Pacific Crest was chartered in 1936 to serve the forest products industry in the Klamath Basin region of rural south central Oregon. We are now a community based credit union of $149 million in assets with 6 branches serving Klamath and Lake Counties in Oregon and Modoc and the northeast corner of Siskiyou County in California. Our region has been notably affected by the trend in bank consolidation, which resulted in the exit of one regional community bank and the acquisitions of two Klamath Falls-based community financial institutions by much larger banking institutions. Pacific Crest has stepped up to serve those customers who seek a more locally-focused banking provider, facilitating growth in our deposit base and an increase in demand for loans to small business and reasonably priced consumer loans.

Our members will be affected, and not in a positive way:

As Pacific Crest continues to grow by serving our members and gaining new members, it will be imperative that we are able to meet our members' needs and that we have the ability to use our resources to build our capacity to serve those needs. In normal business circumstances, capital would be deployed or income diverted to develop enhanced products and services to provide the types of financial solutions our members expect in today's environment and the future marketplace. Under the proposed capital requirements and with an examiner's option of imposing an individual minimum capital requirement, our flexibility to serve our members would be restricted by our need to manage to a capital buffer that will accommodate our own desire to maintain a safeguard cushion *as well as* an additional buffer in anticipation that our examiner may impose arbitrary capital standards on our credit union. Pacific Crest is 'well-capitalized' and currently maintains a net worth of over 8.5% of total assets, a buffer of more than 1.5% above the well capitalized level. Utilizing the risk-based capital calculator provided by NCUA, our risk-based capital would be over 14%, a buffer of 3.5%. After several years of actions that have shaped a more conservative balance sheet, it is essential that we have the flexibility to increase value to our members and this adaptability will have a planned impact on our product structure. Responsiveness to our members' needs will be hampered by NCUA's desire to manage our balance sheet through implementation of this risk-based capital proposal. Our efforts as credit union management will be on increasing an already more than adequate level of capital, rather than a concentrated focus on developing ways to help our members prosper.

Consider the Act; or, PCA for Credit Unions commensurate with credit union industry risk, not banking system risk:

My life career with credit unions began in 1976 and I was fortunate to work with an old-school manager who valued the credit union difference. He taught me well. We fledgling employees were encouraged to be resourceful and yet adhere to the rules and regulations – and there were far fewer then – under which we were empowered to act. I remember that when I had a question about 'why' we operated as we did or had a suggestion that bumped up against those rules, I was instructed to go to my credit union's resource library (yes, we were an educator's credit union!) and 'peruse' the Federal Credit Union Act. I believe that if Mr. James Johnston were still with us, he would provide those same instructions to our present-day NCUA Board and staff.

Under Section 1790d(a) through 1790d(b)(B)(iii) of the Federal Credit Union Act (revised April 2013), Prompt Corrective Action, the NCUA Board is instructed to protect the NCUSIF by prescribing a system of prompt corrective action that is comparable to Section 1831o in U.S. Code: Title 12, Banks and Banking *and* takes into account that credit unions are not-for-profit cooperatives that do not issue capital stock; must rely on retained earnings to build net worth; and have boards of directors that are primarily volunteers.

Credit unions exist for the benefit of the members and to help members prosper; banks exist to create value for shareholders. There is a fundamental difference in operational and strategic philosophy between banks and credit unions that the NCUA is mandated to take into account when designing our system of PCA. Credit Unions may offer many of the same consumer and small business services that banks offer; however, the scope and magnitude of credit unions' impact and potential risk profile to the overall banking system is not on the scale of the banking industry. Note the following statistics from Credit Union National Association's Economic and Statistics Department Year End 2012 report on Commercial Banks and Credit Unions:

- As of year-end 2012 banking institutions held over fourteen times more assets than credit unions ($14.45 trillion vs. $1.03 trillion).
- ***Each*** of the nation's four largest banking entities are larger than the ***entire*** credit union movement.
- The average banking institution is over fourteen times larger than the average credit union ($2.04 billion vs. $148.8 million in assets).

- At year-end 2012, one-half of all U.S. credit unions had less than $21 million in assets. Overall, less than 2% of banking institutions are this small.
- Overall, 67% of banking institutions had $100 million or more in total assets at year-end 2012. Only 20% of credit unions are this large.
- From 2008 through 2012, there were 465 bank failures compared to 124 credit union failures.

In summary, please consider the many comments from concerned credit unions and develop a new or substantially changed risk based capital proposal. Remove the option of an individual minimum capital requirement; exclude credit unions of $250 million in assets or smaller from the rule; review the risk weights of assets; and increase the implementation phase of any risk based capital rule to a period of 36 months.

Please do not place the credit unions you oversee at a disadvantage in relation to banks in serving the financial needs of American consumers. Help us as we create value based solutions for our members and our communities. Our sustainability as viable cooperatives depends on it.

Sincerely,

Kathie Philp

Kathie Philp
President/CEO
Pacific Crest Federal Credit Union
Charter Number 960