April 21, 2015

To: regcomments@ncua.gov

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

RE: Comments on Proposed Rule: PCA - Risk-Based Capital

Dear Mr. Poliquin:

West Community Credit Union (WCCU) appreciates that NCUA revised its original proposal for a new Risk-Based Capital rule that was released January 15, 2015 (referred to as RBC2). We acknowledge that a number of changes were made that would be considered positive for credit union capital requirements when compared to the first proposal. However, we still adamantly oppose the implementation of any new capital rule until it is clear if NCUA has the authority to do so under the two-tiered system and the case is truly made to demonstrate that such a rule would have prevented the failures that were experienced in the previous recession. A "one size fits all" approach will weaken the credit union charter and diminish the uniqueness that credit unions with sound risk management practices can leverage to be sustainable into the future. It sends a signal that the work the field examiners for NCUA and state offices perform to understand the individual risks and management practices at each credit union is not meaningful, and simple math from numbers in a Call Report can ensure that systemic risk is controlled. We ask that this proposal be withdrawn and further resources provided to training field examiners to ensure a strong partnership and understanding exists that will allow for a strong and sustainable system.

Should NCUA pursue implementation of this rule, there are two areas that we believe must be addressed prior to doing so:

I. We request that the risk weighting be lowered to 75% for concentration in junior lien real estate loans under 35% of assets and 125% for those concentration exceeding 35% of assets.

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The proposed risk weights for loans are established without recognition of what actually drives risk and loss exposure in credit union loan portfolios. The “one size fits all” approach that uses product type to differentiate risk is naïve and devalues the complex role that loan underwriters and lending managers play in managing the credit risk in their portfolios. The credit union’s lien position or the types of collateral by themselves do not explain risk. Two credit unions can have extremely different risk profiles but the same balance sheet composition based on other factors, such as the geographic location of the market in which they lend, the average credit score of the borrowers, and average loan to value positions. Additionally, the amount of experience and analytical tools available to the credit union in terms of its lending resources can play a large role in effectively managing risk when compared to other credit unions with fewer resources. Applying one capital standard in such a simplistic model sends a message to credit unions and the public that credit union lending decisions and management are not complex or those skills and other considerations are not needed.

In fact, this new rule undervalues the sophisticated approach WCCU and other credit unions take to manage the risk in their portfolios. It limits the ability to serve the unique needs of the community or leverage a competitive advantage relative to others when there is expertise and sophisticated systems available at the credit union to bring such value safely to the community. Currently, our examiners request we take additional risk management steps, such as performing sophisticated evaluation of our junior lien real estate portfolio, that are considered a best practice and not inexpensive. Why continue these risk management practices when the baseline levels in the risk based capital proposal water down the ability to take intelligent risk? NCUA cannot have it both ways.

One of the most problematic areas in the new risk based capital rule is the risk weights applied to junior lien real estate loans. The proposed levels are excessive and unfounded in terms of relative risk to other loan products. It also ignores the main drivers of risk in a loan, such as the credit profile of the underlying borrowers in the loan pool, loan-to-value exposure and the nature of the geographic area. WCCU experienced no more losses in its junior lien real estate portfolio during the Great Recession than in its unsecured portfolio in terms of dollars and even far less in percentage terms. Under this rule, WCCU would be incented to reduce its concentration in what are proven to be less risky junior lien loans (a very high quality portfolio) and invest in riskier loans, such as unsecured. Additionally, WCCU could be incented under the new rule to take additional interest rate risk exposure due to the very favorable risk weights provided to first lien real estate loans.

Intuitively, we understand that being concentrated in a junior lien position may for some credit unions be riskier than being concentrated in real estate loans in the first position. We are willing to concede a small differential in risk weighting if there is no other way to address the true risk of the loan portfolio for each individual credit union without burdensome reporting. ***We request that the risk weighting be lowered to 75% for concentration in junior lien real estate loans under 35% of assets and 125% for those concentration exceeding 35% of assets. We are comfortable with leaving non-performing loan risk weightings for junior lien real estate loans at 150%.***

II. Validate this rule can be implemented legally first and do not create a separate interest rate risk rule in addition to this rule

We believe this rule should not be passed without a definitive answer to the question regarding if a two-tiered capital rule is within the purview of the NCUA and legal to implement. NCUA should look to avoid a potential lawsuit and harm to its reputation and bringing negative headlines related to the credit union system into the news. Additionally, creating yet another rule on top of this proposed rule to address interest rate risk is even more questionable and burdensome. The current PCA rule addresses interest rate risk and concerns related to complex credit unions. The current net worth requirement of 7% to be "well capitalized" more than adequately handles the credit risk. The experience of the most recent recession demonstrated very little impact to the NCUSIF under the current rules, and there can be no better stress test than that event. The best move is to leave things in place under a system that performed better than the banking system and allowed credit unions to return maximum value to their members while ensuring sufficient capital for systemic events.

Thank you for the opportunity to comment on the Proposed Rule and for listening to WCCU's concerns. Please feel free to contact us with any questions regarding WCCU's comments on the Proposed Rule.

Sincerely,

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