



April 21, 2015

National Credit Union Administration
Mr. Gerald Poliquin, Secretary to the NCUA Board
1775 Duke Street
Alexandria, VA 22314-3428

Re: Comments on Proposed Rule: Risked Based Capital (RBC2)

Dear Mr. Poliquin:

On behalf of Caltech Employees Federal Credit Union (CEFCU), we are writing to you regarding the NCUA's proposed rule governing risk based capital. Thank you for the opportunity to provide our Credit Union's thoughts on this important proposal. Our views express some of our concerns, directly impacting our Credit Union, about the potential negative impact of the proposed rule on us and the credit union industry as a whole.

The revised RBC2 proposal is a vast improvement over the initial proposal and we thank the NCUA Board and Staff for taking the time and effort to solicit input from key stakeholders to improve upon the initial proposal. We are still concerned that the proposed RBC2 is an over reach by the NCUA. Please note our following concerns:

- The NCUA is trying to align NCUA promulgated RBC metrics with FDIC capital regulations. While on the surface, this seems an admirable goal; banks and credit unions are totally different with regards to capital. FDIC insured banks can count Tier 2 capital in the numerator of the RBC calculation, yet NCUSIF insured institutions do not have the ability to generate Tier 2 capital on parity with banks. Why then does the NCUA propose a 10% RBC threshold, when it would seem more appropriate to create a limit that was more similar to the 8.00% Tier 1 FDIC threshold?

- CEFCU is very concerned that escalating capital requirements based upon higher concentrations in a specific asset class is counterproductive. Assuming a credit union can demonstrate the ability to manage higher concentrations in a specific area, why should the credit union be subject to higher capital requirements? Escalating capital requirements for specific asset classes will put the entire credit union industry at a distinct disadvantage over time. This type of requirement will lead to unintended consequences and could ultimately lead to more risk in the overall credit union system. Furthermore, the FCU Act requires that credit unions have a 6% Net Worth Ratio to be adequately capitalized and a 7% Net worth Ratio to be “well capitalized”; Banks have a 4% and 5% requirement respectively. How will our industry compete in the longer term with higher capital requirements?
- We applaud that the NCUA has removed Interest Rate Risk (IRR) from RBC2. We believe that the NCUA has issued sufficient guidance to address IRR. In reviewing the material loss review reports issued by the Inspector General, the overwhelming reason for credit union failures has been losses associated with credit risk and **NOT** IRR. We urge the NCUA to refrain from developing a one-size-fits-all approach to managing IRR. CEFCU has prospered for over 65 years with our unique business model and our member/owners have greatly benefited from our model. We have proven our ability to manage this risk as has been ratified year after year by the NCUA examination process.
- While CEFCU is only 27% loaned out and is a highly liquid institution, we recognize the need to properly manage the balance sheet. While we have not needed to sell loans in the past, should the need arise, we are concerned that the 250% risk weight being applied to mortgage servicing rights is excessive; especially for a loan sold without recourse. This seems counter-intuitive.
- We are still concerned the NCUA is requiring that credit unions must maintain a comprehensive written strategy to maintain “an appropriate level of capital”. We believe that this requirement would subject a credit union to arbitrarily higher levels of capital than is outlined in RBC2. Our

opinion is that it will allow NCUA, through the examination process, to essentially work around the omission of individual minimum capital requirements as was proposed in the initial Risk Based Capital proposal and subsequently removed in this revised proposal.

- While the NCUA has recognized that the Allowance for Loan Loss (ALLL) should be counted when calculating RBC2, we are concerned that the NCUA is not allowing our 1% NCUSIF deposit to be counted as capital. The NCUA has paid a dividend on this asset in the past and this should be considered an asset for federally insured credit unions.

The singular issues we have addressed above are of direct interest to us. Although we have chosen to not expound on the many other issues related to RBC2, we strongly support and advocate those issues presented by our trade organizations.

- NCUA lacks the statutory authority to prescribe a separate risk based capital threshold for “well capitalized” and “adequately capitalized” credit unions.
- If finalized, this proposal will impose significant costs on the credit union industry...both direct internal costs and the substantial cost increase in the NCUA budget which will be borne by credit unions directly.
- The proposed rule does not provide any changes that would allow credit unions the authority to raise supplemental capital.

Once again, thank you for the opportunity to comment on this proposed regulation. All of the above issues have significant impact on the credit union industry and our ability to serve our members. We respectfully urge NCUA to address these recommended improvements to the proposal.

Sincerely,



Richard L. Harris
President/CEO



John K. Meeker
Senior Vice President/CFO

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