Bay Federal
CREDIT UNION
Making a real difference

April 22, 2015

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

RE: NCUA's Risk Based Capital Proposal

Dear Mr. Poliquin

Bay Federal Credit Union appreciates the opportunity to submit comments to the National Credit Union Administration (NCUA) on the NCUA's second proposed-risk based capital rule (RBC2). By way of background, Bay Federal Credit Union (Bay) is a federally chartered credit union serving the communities within the counties of Santa Cruz, Monterey, and San Benito. We have over 58,000 Members and $750 million in assets.

Bay was pleased to see that NCUA listened to the concerns voiced by the credit union community on the first proposed risk based capital rule (RBC1) and made significant revisions to the proposed RBC2. However, Bay still has concerns on several of the proposed provisions that are misaligned or will have unintended consequences. Bay has outlined its concerns and recommendations to ensure that the provisions are well intended and balanced providing a clear measurement of risk while not adversely affecting its ability to serve the membership.

Definition of Complex Credit Union:
The definition of complex credit union should not be based solely on asset size. Rather the definition of complex should reflect credit unions with activities that pose extraordinary risk, beyond routine loans and investments, for which their adequately capitalized level of net worth does not provide adequate protection. This would be consistent with the FCU act and will result in a fairer application of risk based capital requirements. Bay recommends NCUA to modify the call report and develop a "checklist" from the call report to identify more complex credit unions rather than focusing on asset size.

Risk Weightings:
RBC2 makes a number of prudent and positive changes to the RBC1 proposed risk weightings. However, certain risk weightings remain too high relative to the risk profile of the asset and could affect ability to provide key services and products to members.

Increasing the risk weighting on 1st lien residential mortgage loans over 35% of assets to 75% appears to be arbitrary and could limit the ability of credit unions to provide high quality mortgage loans to members. There is no consideration for the actual quality of the portfolio such as loan to value or underwriting. Maintaining the 50% weighting is adequate for all current 1st lien residential mortgages and credit unions should not be adversely impacted in their ability to make quality member loans with the proposed tiered structure. Many credit unions sell longer-term mortgage loans for the purposes of managing interest rate risk, yet the current proposed risk weighting for mortgage servicing rights could have unintended consequences forcing credit unions to sell servicing rights to reduce capital requirements. Selling or retaining mortgage servicing rights should be a strategic decision not a tactical decision to manage capital requirements given the overall risk profile of mortgage servicing rights. Increasing the risk weighting based on concentration levels and imposing a 250% risk weighting on mortgage servicing rights is conflicting. Bay recommends reducing the risk weighting on mortgage servicing rights to 100% and to maintain a risk weighting of 50% on all first lien residential mortgage loans.

Bay does not support the proposed 300% risk weighting for publicly traded equity investments as credit unions will be unduly limited in their investment for employee benefit funding. Bay recommends reducing the risk weighting to 150%.

Supplemental Capital:
Bay encourages NCUA to include in RBC2 permitting supplemental capital in the numerator in calculating risk based capital and judiciously pursue legislation that would authorize the use of supplemental capital as net worth for the purposes of prompt corrective action for all credit unions.

Interest Rate Risk Rule:
A separate interest rate risk rule is unnecessary as examiners have sufficient tools to assess interest rate risk consistently from credit union to credit union. Over the last several years, NCUA has issued numerous rules and letters addressing interest rate risk and dependent on asset size requires federally insured credit unions to have a written policy. The examination process should identify excessive risk and appropriate action taken. One recommendation to improve the consistent application of non-maturity deposit assumptions, which tend to be the most subjective, would be to adopt the recommendations outlined in "The Evaluation of Credit Union Non-Maturity Deposits" commissioned in 2001 by NCUA. This is a comprehensive study that can be utilized to normalize non-maturity deposit assumptions across credit unions. Moving to a par model is unreasonable as credit union share accounts carry intrinsic value as evidenced by many mergers in which premiums were paid or imputed.

In conclusion, we strongly encourage NCUA to consider Bay's recommendations to improve the effectiveness of the risk-based capital proposal in managing safety and soundness without unduly impacting the ability of credit unions to serve their members.

Sincerely,

Rick Weiss
VP, Chief Financial Officer