Peninsula
CREDIT UNION

April 21, 2015

Mr. Gerald Poliquin
Secretary of the Board
c/o: regcomments@ncua.gov *Delivered Electronically*
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Subject: Comments on Proposed Rule – RBC2 (12 CFR 7902)

Dear Mr. Poliquin,

Peninsula Community Federal Credit Union (PCFCU) would like to acknowledge the time and effort that has gone into the revised RBC2 proposal. The purpose of this letter is to provide feedback regarding the current proposal.

Positive Changes:

- Lowered well-capitalized from 10.5% to 10%;
- The Individual Minimum Capital Requirement (IMCR) was removed;
- Threshold for delinquent loans increasing from 60 to 90 days;
- Separate risk weights for fully share secured, secured, and unsecured loans;
- Reduction in risk weights for FHLBank and CLF stock;
- Removing of weighted average life (WAL) from investment risk weights
- Allowing the entire ALLL account to be included in the calculation
- Insured deposits at federally insured financial institutions now have a 0% risk weighting
- Mortgage Loans – removal of the multiple tier risk weights;
- Implementation date revised to January 1, 2019. Allows CU more time to comply and provides adequate time for NCUA to update the Call Report system.

Ongoing Concerns:

Interest Rate Risk as a Supervisory Concern

Since NCUA Letter 12-CU-05 regarding the Interest Rate Risk (IRR) Policy and Program Requirements already exists, it was good to see that IRR component had been removed from

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RBC2. The requirements of 12-CU-05 sufficiently address concerns with credit unions' management of IRR. Utilizing this guidance, the supervisory oversight are sufficient to monitor IRR without adding an additional IRR regulation.

Definition of a Complex CU

The definition of a complex credit union was changed from CUs greater than $50 million to CUs greater than $100. The definition of a "complex" credit union should not be strictly defined by asset size but by other factors such as the types of business activities the CU is engaged in. Complexity should be based factors such as:

- Is the CU engaged in member business lending?
- Does the CU do Real Estate Lending?
- What type of investments is the CU doing?
- Composition of Balance sheet

Maybe factors like these and other balance sheet items should be given risk ratings and develop a threshold that if a CU's risk rating is over X% then it is considered complex.

If asset size continues to be the basis for considering a CU complex then $100 million is too low. A case has already been made by the NCUA that $250 million would be a better asset threshold. NCUA Regulation 741.12 Liquidity and Contingency Funding Plans (LCU 13-CU-10) NCUA stated that credit unions over $250 million have a great degree of interconnectedness with other market entities. When they experience unexpected or severe liquidity constraints, they are more likely to adversely affect the credit union system, public perceptions, and the NCUSIF.

Supplemental Capital

CU's should be allowed to have the ability to raise supplemental capital and to be able to use this capital in the risk-based capital ratio numerator. The proposed RBC2 rule, without the option to raise additional capital, would curtail growth and limit credit unions from providing much need financial services to their members; which would then affect their local communities. Credit unions need to grow in order to survive so limiting growth could eventually lead to failure, causing losses to the NCUSIF.

Risk-weights

We would suggest the risk weightings for non-wholly owned CUSO investments and Corporate Perpetual Capital be risk weighted at 100% instead of 150%. The reason for this recommendation is that this is what current unsecured consumer loans are weighted at and if there is some type of default or loss it would be only 100% of the balance.

Goodwill

We are pleased with the changes in RBC2 that would allow a credit union to include "supervisory" goodwill as part of capital but do not understand the provision that it would expire in January 2025. We do not see the need for there to be an expiration date at all.

Summary

On behalf of Peninsula Community Federal Credit Union and our Board of Directors, we very much appreciate the careful reflection and the time NCUA took to incorporate so many comments into the revisions to the proposed risk based capital rule. We anticipated the same diligence will be taken to consider the outstanding concerns we still have about RBC2. To review, these items include: continuing to treat IRR as a supervisory concern, the definition of a complex credit union not being appropriate, the adverse impact of RBC2 without the ability to raise supplemental capital, reducing risk weights related to non-wholly owned CUSO investments and Corporate Perpetual Capital, and the treatment of goodwill.

As was shared from our initial comment letter, the NCUA is not statutorily required to rush to adopt this rule. No specific deadline needs to be met. There is time to encourage appropriate statutory changes. Thank you for considering the collective wisdom that exists across the credit union industry.

Sincerely,

James M. Morrell
President/CEO

Tina M. Nutt
VP/CFO

cc: U.S. Senator Patty Murray (WA)
U.S. Senator Maria Cantwell (WA)
U.S. Congressman Denny Heck (WA-10th)
U.S. Congressman Derek Kilmer (WA-6th)
Mr. John Trull, AVP Regulatory Advocacy, NWCUA