

**From:** [Chuck Papenfus](#)  
**To:** [Regulatory Comments](#)  
**Subject:** NCUA Risk Based Capital Proposed Regulation  
**Date:** Friday, April 24, 2015 4:00:20 PM

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

Re: Comments on Proposed Rule: PCA – Risk-Based Capital Part 2

As the CEO of Inland Valley Federal Credit Union (IVFCU), I welcome and appreciate the opportunity to comment on the proposed Risk-Based Capital rule. IVFCU serves the underserved area including the cities of Fontana, Rialto, Colton, Bloomington and Muscoy. We have 3,327 Members and \$39.4 million in assets. While we are not currently subject to the rule as written, we know eventually we will have to comply.

We appreciate the revisions that were made as a result of the first comment period. However as we analyze the reasons behind the rule, we do not believe the expense justifies any future benefits. Additionally, we hesitate to endorse a rule making when the legal authority to issue a rule has been disputed. This has the potential to create unknown legal costs in the future.

We believe the current rules and focused enforcement is a better method to mitigate losses to our insurance fund which may occur as a result of capital. This view is further reinforced by the agency's estimates that the implementation cost will exceed 33.7 million dollars while currently estimating that only 19 credit unions have balance sheets structured in a way that would require additional capital and scrutiny.

I have several areas of concern in the proposed rule as follows.

We agreed that interest rate risk metrics were correctly removed from the calculation. As part of this process our thoughts on interest rate risk were solicited. At IVFCU, we believe that the current Interest Rate Risk Rules are sufficient. We complete a robust quarterly analysis that is reviewed by our ALCO, Management and Board as well as our Federal Examiners and outside auditors. This process is far more likely to provide an early warning of risk than any broad based rule and metric as it examines assets and liabilities at the individual detail level which provides a substantially greater degree of accuracy.

We appreciate the reduction of the well-capitalized level from 10.5% to 10%. However, we question NCUA's legal ability to implement a two tiered capital structure and therefore moving the well-capitalized tier to 8% is appropriate and would be comparable to other financial institutions.

Defining complex credit unions simply by asset size is overly simplistic. Complexity is defined by the balance sheet. There should be some sort of balance sheet test in addition to size.

Goodwill should not be discounted as long as it is a legal asset as defined by GAAP. If goodwill generated from Supervisory assisted mergers is excluded, the cost to the insurance fund will increase in these instances resulting in higher costs to all credit unions and

ultimately the members.

Risk weighting for CUSOs greater than 100% is wholly inappropriate. We use several CUSOs which provide both expertise and economies of scale that allow us to provide value to our membership that would otherwise be unavailable at our size. Investments in CUSOs are not subject to losses greater than 100%, therefore they should not require more capital. Alternatively, I believe that many CUSOs should be weighted at lower than 100% levels because of their value, structure and stability.

Part 702.101(b) is concerning in that all credit union's should be able to determine a capital strategy independently not be subject to prescribed standards in a capital adequacy plan. In addition, all Credit Union Business Plans ALM Policies currently address capital. Thus, there is no need to require an additional level of scrutiny and another hurdle to overcome in the exam process.

Thank you for the opportunity to comment and for considering our views on the proposed risk-based capital rule.

Sincerely,

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