north island credit union.

April 24, 2015

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,

I am writing on behalf of North Island Credit Union, a credit union that focuses on meeting the financial needs of consumers and small businesses in San Diego, Riverside and Orange Counties. We have approximately $1.2 billion in assets, 77,000 members, and operate 10 branches in San Diego County. We appreciate the opportunity to provide our comments to the National Credit Union Administration Board on its proposal regarding Risk-Based Capital requirements under its Prompt Corrective Action (PCA) rules.

We recognize that RBC2 reflects substantial changes from the previous proposal issued in early 2014, and we commend the NCUA Board for considering the significant amount of feedback it received from throughout the credit union industry.

North Island Credit Union supports risk-based capital and believes that credit unions should maintain adequate capital that is commensurate with its risk. We also support NCUA's objective of utilizing a consistent framework implementing capital requirements for all federally insured financial institutions. However, we are still concerned about the implementation of this updated proposed rule that, while improved, relative to banks, this proposal continues to be more onerous and punitive.

<u>Numerator Concerns</u>

NCUSIF Deposit

At March 31, 2015, the impact of reducing the NCUSIF deposit from Net Worth was a decrease of 7.6%. While we note that the NCUSIF deposit is subtracted from the denominator, the reduction from Net Worth has a disproportionate impact, since it is not part of Net Worth in the first place especially since this is a deposit held by the NCUA to cover credit union failures. This asset is refundable to credit unions if they choose to withdraw from being insured by the NCUA by changing their charter. In addition, if a credit union grows its member share deposits, an increase to the NCUSIF deposit would be required and would dilute the risk based capital and inhibit growth of credit unions. We believe that it should not be eliminated from either the numerator or the denominator.

Goodwill

RBC2 proposes to differentiate how Goodwill is handled depending on whether it was a "supervisory merger" or not. Although there is grandfathering of the inclusion of goodwill resulting from a "supervisory merger" until 2025, any goodwill from a non-supervisory merger would be immediately deducted from capital. Goodwill arises from accounting for mergers on the purchase method. The entire balance sheet of the acquired company is marked to market and the balancing figure is goodwill. Under GAAP, goodwill is subject to rigorous testing for impairment on an annual basis and write offs are recognized in the income statement. To eliminate it from Net Worth is a disincentive to pursue a merger that would result in goodwill. Viable credit unions would be discouraged from taking on less viable credit unions, which would create additional hurdles from a RBC perspective and potentially increase the cost of resolving troubled credit unions. We encourage you to eliminate the deduction of Goodwill from capital and have it risk weighted at 100%.

Denominator Concerns

CUSO's

The RBC2 reduced the risk weighting from 250% to 150% for unconsolidated investment in CUSO's and the loans to CUSO is risk weighted at 100%. The risk weighting that should be assigned should be based on how that business operation would be risk weighted if it were performed directly by the Credit Union. We are concerned that the inflated risk weighting on CUSO investments may hinder collaboration among credit unions at a time when such collaboration is vital to the future success of the industry. Many credit unions look at CUSO relationships as a way to consolidate functions in a more efficient, less risky manner in order to reduce operating expenses/increase other income without having to make 100% investment in those operations/lines of business. Accordingly, we believe the risk weighting should not exceed 100%.

First Mortgages

While RBC2 reduced the number of tiers from three to two, the risk weighting for 1st mortgages acts like a progressive capital tax based on increasing concentration. If the percent of these loans to total assets exceeds 35%, the capital requirement goes from a 50% risk weight to 75% risk weight which is a 50% increase. Currently, under BASEL III the risk weight for 1st mortgages is 50% regardless of concentration.

Junior Real Estate Loans
he same argument can be applied to junior real estate loans, while RBC2 reduced the number of tiers from three to two, the risk weighting for these loans acts like a progressive capital tax based on increasing concentration. If the percent of these loans to total assets exceeds 20%, the capital requirement goes from a 100% risk weight to 150% risk weight which is a 50% increase. Currently, under BASEL III the risk weight for junior real estate loans is 100% regardless of concentration.

Under the Proposed Rule, no distinction is made on the risk weights assigned to mortgage loans of various maturity, repricing intervals and loan to value ratios. A 30 year fixed rate mortgage gets the same risk weight as a one year adjustable mortgage. Conversely, the FDIC methodology ignores concentration risk and assigns risk weightings based on LTV ratios, which we believe is more appropriate. A mortgage loan with an LTV of 50% should not be treated with the same risk weight as a loan with a higher LTV ratio.

Sincerely,

Hudson Lee

Hudson Lee
Senior Vice President
Chief Financial Officer