CoastHills
Another great day.

April 27, 2015

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

Sent via email: regcomments@ncua.gov

Re: Comments on Proposed Rule – Risk-Based Capital

Dr. Mr. Poliquin:

On behalf of CoastHills Credit Union, I would like to commend the Board for the further evaluation of risk-based capital requirements for Credit Unions. However, I have concerns with several aspects of the revised proposed regulation, summarized below. Operating on the Central Coast of California, CoastHills is a federally insured state-chartered Credit Union with $840 million in total assets and 59,000 Members.

1. **Confusion of Entity vs. System Risk.** The last several years have emphasized that some assets we hold are more susceptible to systemic risk than others. It is reasonable to consider this in the risk-weighting of assets, and this is embodied to some degree in Basel standards. An example of where the reasoning behind the proposed regulation appears confused is in the treatment of the NCUA Share Insurance Fund Deposit, compared to a credit union's possible capital investment in a corporate credit union. Many credit unions suffered a permanent loss of several million dollars of capital contributed their corporate credit union, but ultimately the value of our Share Insurance Fund Deposits has remained intact. Counter intuitively, the proposed regulation deems the Share Insurance Fund Deposits worthless, while allowing capital at risk in corporate credit unions to be treated as assets. Underlying this paradox seems to be confusion of Entity Risk and System Risk. For the risk-based capital system to be defensible and generally accepted, this specific issue and the underlying reasoning should be more thoroughly vetted, then re-applied to a better proposed regulation.
2. **CUSO Investments.** Requiring a risk weighting of 150% for all CUSO Investments is arbitrary and generally disproportionate to the risk. The risk weighting should not exceed 100%, unless certain risk factors are identifiable.
3. **Mortgage Servicing Rights.** Requiring a risk weighting of 250% for Mortgage Servicing Rights is arbitrary and generally disproportionate to the risk. Unless a Credit Union is aggressively accounting for MSRs or other risk factors are identified, the risk weighting should not exceed 100%.

4. **Goodwill.** Different treatment depending on whether a merger is "supervisory" or not is not conceptually defensible. This will likely dampen the economic incentive for non-supervisory mergers and be a detriment to increasing industry efficiency.

I would be pleased to further discuss this with NCUA staff or the Board, if desired.

Sincerely,

Marty Chatham
Marty Chatham
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Marty Chatham, Senior Vice President & Chief Financial Officer
CoastHills Credit Union, Lompoc, California