



Pacific Crest

FEDERAL CREDIT UNION

Where You Belong

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April 24, 2015

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
Alexandria, Virginia 22314-3428

Re: Comments on Prompt Corrective Action – Risk Based Capital; RIN 3133-AD77

Dear Mr. Poliquin:

Thank you for the opportunity to comment on NCUA's amended proposed risk based capital (RBC) rule. I am writing on behalf of Pacific Crest Federal Credit Union, its board of directors and over 15,000 members. Pacific Crest was chartered in 1936 to serve the forest products industry in the Klamath Basin region of rural south central Oregon. We are now a community based credit union of \$154 million in assets with 5 branches serving Klamath and Lake Counties in Oregon; and Modoc and the northeast corner of Siskiyou County in California.

The NCUA is to be commended for considering comments and making changes on the first draft of the proposed rule; however, I continue to question the legality and necessity of the proposed rule. I do not believe that the two-tier risk-based capital system is permissible under Section 1790(d) of the Federal Credit Union Act. In addition, this section, while instructing the NCUA Board to protect the NCUSIF by prescribing a system of prompt corrective action that is comparable to Section 1831o in U.S. Code: Title 12, Banks and Banking, also mandates consideration that credit unions are not-for-profit cooperatives that do not issue capital stock; must rely on retained earnings to build net worth; and have boards of directors that are primarily volunteers.

Considering that the scope and magnitude of credit unions' impact and potential risk profile to the overall banking system is not on the scale of the banking industry, why would our regulator wish to impose equal or more stringent capital requirements to credit unions? Note the following statistics from Credit Union National Association's Economic and Statistics Department Year End 2013 report on Commercial Banks and Credit Unions:

- As of year-end 2013 banking institutions held over fourteen times more assets than credit unions (\$14.7 trillion vs. \$1.1 trillion).

- Credit union market share is historically small: 5.6% in 1992 and 6.7% at the end of 2013.
- Market share of assets in large (over \$1 billion) banks is 96%; in credit unions, 4%.
- *Each* of the nation's four largest banking entities are larger than the *entire* credit union movement.
- The average banking institution is nearly fourteen times larger than the average credit union (\$2.2 billion vs. \$161 million in assets).
- At year-end 2013, one-half of all U.S. credit unions had less than \$23 million in assets. Overall, less than 3% of banking institutions are this small.
- Overall, 70% of banking institutions had \$100 million or more in total assets at year-end 2012. Only 20% of credit unions are this large.
- From 2008 through 2013, there were 489 bank failures compared to 136 credit union failures.
- Credit union industry capital levels have been consistently over 10% since 1995; with one exception: 9.9% in 2009.

Should the proposed rule, with further modifications, be enacted, the NCUA should consider revising the asset threshold in defining a 'complex' credit union to \$500 million. I also believe that low income credit unions, minority depository institutions and community development financial institutions be exempt from the rule. Credit unions with these designations serve higher-risk, underserved members and implementation of the rule would impede the credit union's ability to lend to and serve this member segment.

The proposed rule has the potential to place credit unions at a competitive disadvantage in relation to other financial institutions, which could negatively impact our ability to provide value to our membership. If we cannot compete with banks, consumers will no longer have a viable choice and the credit union industry will no longer be sustainable.

It is important that the NCUA ensures the safety and soundness of our credit union system and the insurance fund; however, I believe that the proposed rule is overreach and unnecessary. I believe that the NCUA should reconsider the necessity of this rule and instead focus on how the Agency can help credit unions survive this century and into the next. A beginning point that would be fully supported by credit unions was stated by Chairman Matz at the 2015 CUNA GAC earlier this year: "...what else, consistent with safety and soundness, can NCUA do to ease regulatory burdens on credit unions?"

Sincerely,



Kathie Philp

President/CEO

Pacific Crest Federal Credit Union