March 27, 2015

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

RE: Comments on Proposed Rule: Risk-Based Capital; RIN 3133-AD77

Dear Gerald Poliquin,

This comment letter represents the views of Credit Union of Southern California (CU SoCal) regarding the National Credit Union Administration's (NCUA's) proposal for Risk Based Capital (RBC). CU SoCal has more than 75,000 Members, $925 million in assets, and 220 employees. We appreciate the opportunity to provide the NCUA with comments regarding this proposed rule.

First, we applaud the NCUA Board for listening and responding to credit union concerns regarding Risk Based Capital Proposal 2 (RBC2.) We appreciate the changes that have already been made including lowering the 10.5% well-capitalized requirement, lowering some of the risk weights, removing the treatment of interest rate risk, extending the implementation time frame, reducing the number of credit unions affected, and addressing the individual minimum capital requirements.

Specifically, we submit the following for your consideration.

1. Further Define "Complex" Credit Unions

   As presented, NCUA is only considering the "complexity" of a credit union by their asset size. We believe that the NCUA should rely on something such as its complexity index, Member services, loan and investment types, and portfolio competition. We believe that this approach is more consistent with the Federal Credit Union Act which requires NCUA to consider "the portfolio of assets and liabilities" of credit unions when determining whether they are complex.

2. New Capital Adequacy Provision

   The new proposal would add a requirement that a covered credit union must maintain capital commensurate with the level and nature of all its risks. Additionally, the credit union must have a process to determine its capital adequacy in light of its risk and a comprehensive written strategy to maintain “an appropriate level of capital.” We believe that this proposed provision would potentially subject credit unions to higher capital requirements than what a final RBC rule provides, and would potentially subject them to additional scrutiny regarding not only their capital levels but how they plan their capital strategies to balance their risks. Additionally, we are unclear as to how the NCUA would coordinate with state regulators on capital planning requirements for state chartered credit unions. Finally, we strongly believe that developing, maintaining and ensuring a capital adequacy plan that meets an examiner’s expectations will add to the overall list of regulatory burdens we are already confronting.

3. Calculating the RBC Ratio

We commend the NCUA for increasing the amount of the ALLL that may be included. We strongly recommend the 1% National Credit Union Share Insurance Fund deposit be included in capital for RBC ratio calculation purposes; it is an asset on our books, is refundable if we converted to private insurance, and represents a key differentiator re the structure of our own fund.

4. Risk-Weighted Assets

CU SoCal would like to thank the NCUA for the numerous modifications they made to the original proposal. However, there are still areas of concern. Primarily, we do not believe that the requirements for credit unions should be any different than the requirements for banks. We recommend revising the risk-weightings, particularly in the areas of Member business loans, mortgages, mortgage servicing rights, and CUSO investments.

5. IRR Proposal

We are not sure what the future NCUA IRR proposal will look like and strongly believe that new IRR regulations are not necessary and would add to the list of regulatory burdens we are already confronting. If an IRR proposal is issued, we would like the following to be considered:

- We do not believe that any proposal should include the Net Long Term Assets Ratio as a benchmark for measuring IRR, as this metric does not factor in the liability side of the balance sheet.

- We believe that any proposal should reflect the long-term stability and relative rate insensitivity of NMS. This stability and rate insensitivity has been validated by numerous NMS studies performed by ALM First and other ALM service providers on behalf individual credit unions.

- We believe that any proposal should consider whether modeling a +3% parallel yield curve shock is the most appropriate scenario, and whether modeling a ramped rate rise would be more appropriate.

Thank you for the opportunity to comment preliminarily on the pending IRR proposal, and we look forward to commenting more extensively once a final proposal is issued.

Again, thank you for the opportunity to provide feedback.

Sincerely,

Dave Gunderson

President/CEO

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Dave Gunderson
CEO
Credit Union of Southern California

cc: CUNA, CCUL