September 05, 2018

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-Supplemental Rule

Dear Mr. Gerald Poliquin,

I am writing on behalf of Patelco Credit Union, which serves Northern California. We have over 325,000 members and over $6.3 billion in assets. Patelco Credit Union appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed Risk-Based Capital–Supplemental Rule.

We support moving the effective date to January 1, 2020. We would endorse moving it to 2021, given it takes more than a year to move a portfolio to gather additional capital should a credit union need to meet new requirements.

We strongly support raising the threshold for the definition of complex credit union from $100 million to $500 million. It makes sense to limit this definition to the top 10% of credit unions that have over 75% of the assets held by credit unions. This will give smaller credit unions regulatory relief they need.

In previous comments we have made on the Risk-Based Capital rule proposals, we have endorsed a checklist approach to sort which credit unions are actually engaging in risky lines of business. The tailoring of the complexity indicators is a step in the right direction. We support only having the riskier parts of the different product types count toward complexity. Specifically, we agree with replacing “member business loans” with “commercial loans” to bring this rule into conformity with recent changes in MBL rules. Restricting “participation loans” to “participation loans sold” also properly captures the riskier part of this business. Similarly, replacing “real estate loans” with “sold mortgages” better captures risk.

Eliminating “internet banking” from the list of risky activities reflects how credit unions have strengthened their controls, such as improved authentication. Internet banking is only a source of risk if controls are not in place. Losses are reflected in other factors.

We disagree with removing first lien mortgages from the “interest only loans” indicator. Interest-only loans are risky, regardless of position. Patelco believes the Complexity Ratio (“CR”) should bear on whether a credit union must use the Risk-Based Capital rules. If a credit union has over $500 million in assets, but has a very low Complexity Ratio, why should they need to reserve additional capital based on the riskiness of their business? There should be a threshold Complexity Ratio, under which a credit union would be exempt from the risk-based capital rules, regardless of asset size. Otherwise, the Complexity Ratio is only an after-the-fact measure of risk and not a determinant of whether the risk-based rules apply. Such a ratio should allow low risk credit unions to avoid the extra reserves.

In summary, we think the changes you propose are steps in the right direction. Please consider moving the effective date out even farther if possible. Please re-examine interest-only first lien loans for inclusion. Finally, please set a threshold CR for exempting low risk credit unions.

Thank you for the opportunity to comment on this Proposed Rule and for considering our views on the Risk-Based Capital—Supplemental Rule.

Sincerely,

Jay Hartlove
Compliance Manager
Patelco CU

cc: CCUL