LBS Financial
CREDIT UNION

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Together ahead

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March 1, 2021

Department of Financial Protection and Innovation

Re: Proposed Changes to California Credit Union Law - PRO 09-17

To Whom It May Concern,

This letter is express our strong concerns and opposition to the proposed changes to limit a credit union's investments issued by any one person to not exceed 10 percent of the credit union's equity for the multiple reasons outlined below. In researching Section 14001.1 of the Financial Code and Section 5065 of the Corporations Code, we understand that the definition of "any person" is a business corporation which would include a national or state bank. In researching Section 14400 of the Financial Code we also understand that equity capital would consist of the credit union's regular reserve and undivided earnings and not include member shares/deposits.

NCUA Rules and Regulations Part 703 (Investment and Deposit Activities) does not include any such percentage limitation. Therefore, this proposed change of a 10 percent limit would not be consistent with the NCUA Rules and Regulations and not be in parity with them as the federal regulator and protector of the National Credit Union Share Insurance Fund (NCUSIF).

Proper regulations are rarely "one size fits all" but rather unique to each credit union's balance sheet, risk profile and capital strength. A Credit Union Investment Policy should be in accordance with both state and federal regulations but not be limited to a certain arbitrary percentage of equity but rather approved by the individual credit union's board of directors and then examined accordingly.

Presently, as allowed under our Board of Directors Investment Policy we have had deposits/investments with [redacted] since our inception in 1935. Our board approved policy allows our credit union to invest up to [redacted] of our credit union's equity in either [redacted] or the [redacted]

In early March 2020 just prior to the pandemic hitting and the historic FRB rate decrease of 150 basis points our credit union invested [redacted] These certificate of deposit rates have significantly exceeded the rates paid on two to five years U.S. Treasury Notes or Federal Agencies this past year. In addition to our corporate checking account with [redacted] we also invest in a daily overnight Repurchase Account (Repo) with them of approximately [redacted] The Repo Account balance can be adjusted daily based upon liquidity needs and can be withdrawn immediately at any time. The [redacted] Repo Account currently pays [redacted] is [redacted] times the amount that the FRB pays of 0.10%. This additional [redacted] basis points results in increased income to our credit of [redacted] per month or [redacted] annually.

LBS Financial Credit Union unexpectedly, due to an unprecedented pandemic, grew [redacted] in deposits during 2020 similar to other credit unions and banks. Therefore, this significant growth resulted in an increase in deposits with [redacted] while also investing in [redacted] maturing in five to seven years in order to improve income beyond the 0.10% the FRB is paying on overnight funds. Unfortunately, similar to other credit unions, we also experienced nominal negative loan growth [redacted] in 2020. From the State DFPI website at year-end 2020 LBS Financial with total assets of $ 1.78 billion had the 4th highest net capital ratio of 12.34% out of the 35 California state-chartered credit unions with $ 1 billion or more in total assets.

The Credit Union's board approved Investment Policy requires that we perform our own internal research and due diligence annually regarding [redacted]. However, we have chosen voluntarily to perform this due diligence twice a year in order to actively monitor [redacted] financial performance. Both the State DFPI and NCUA exam teams have reviewed this financial performance due diligence regarding [redacted] and have noted no concerns or Examiner Findings for decades. At year-end 2020 [redacted] from their Call Reports and the State DFPI website had [redacted] in total assets with a [redacted] Return on Assets and [redacted] net capital ratio. [redacted] has a very conservative approach with regards to their loan underwriting and has been in business over [redacted] It is important and remarkable to note that [redacted] has been profitable every year since their inception in [redacted] which would include the Great Recession, Great Recession, and now the current pandemic recession. Not many banks or credit unions can say they have been profitable every year they have been in business. Needless to say, we have a mutually beneficial banking relationship with [redacted] for the past 85 years and wish to continue doing so but this new proposed 10 percent limitation would sadly and unnecessarily threaten that.

In summary, to be consistent with the NCUA Rules and Regulations under Part 703 we respectfully request that on Page 8 in Section 30.33 (b) you remove the 10 percent limit of the credit union's equity to any one person. Or, alternatively include in the following sentence that deposits in national or state banks along with obligations of the United States are not subject to this limit for all the reasons stated in the preceding paragraphs. Again, as NCUA and the State DFPI already does at the present time and has for decades you properly examine each credit union's investment portfolio at least annually and note any concerns accordingly but should not create a new proposed cap of 10% to any one person which in turn limits the ability of the Credit Union to safely earn more on its investments.

We thank you for your time in reading our earnest letter and request to make this important change and will look forward to learning that this has occurred.

If you should have any questions concerning the contents of this letter please feel free to reach out to me directly at 562.598.9007at extension [redacted]

Respectfully,

[redacted]

Jeffrey A. Napper
President/CEO