FEDERAL CREDIT UNION

May 23, 2014

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

Re: Comments on Proposed Rule Prompt Corrective Action – Risk Based Capital

Dear Mr. Poliquin:

I want to thank the NCUA Board for the opportunity to comment on their Prompt Corrective Action - Risk Based Capital proposal. My comments to the Board are separated into three parts. First, I believe that in today's challenging competitive marketplace saving too much capital may be detrimental to a credit union's viability. The balance between having adequate capital and, taking measured risks to earn our member's business has been and continues to be an extremely difficult challenge. Secondly, I would like to provide comments and data that support my recommendation that the current proposal for risk weightings and well capitalized minimum need to be changed. Implementing these changes will allow credit unions that currently manage their capital efficiently in serving their members, to continue to do so. I also ask that the Board take their time so they can better assess the impact on credit unions. These issues need to be considered by the Board in establishing any changes to the current PCA regulation.

Capital Ratio Capital Adequacy Competitively Viable
I started working at TCT Federal Credit Union 25 years ago. Coincidently this was when the capital ratios first became a major part of NCUA exams. The Board may not be aware but the emphasis on the capital ratios was new to credit unions at the time. The mandates from NCUA came fast, and they came hard. The implication from NCUA was that the higher the capital ratio the stronger and better managed the credit union. What bothered me back then as well as today is that as the capital ratios grew higher, the steady decline of credit unions did not decrease.

In fact over the past 25 years there are over 7,000 credit unions that have closed shop. This means more credit unions have closed than remain. The overwhelming majority of those that have closed were well capitalized; many way above 7% net worth. They were financially sound but had boxed themselves in where they could not adapt to the changing market. From the beginning, TCT was the contradiction. We started the decade with 3.39% net worth, and we were under great pressure from our examiners and Region 1 to raise it fast. We chose instead a methodical approach to raising our capital ratio. We balanced reinvesting our earnings into improving our service to our members and setting money in undivided earnings to improve our ratio. We believed this strategy would improve our growth and improve future earnings. Over time the net worth would catch up to our growth. Our net worth slowly rose to 5% from 1990 to 1994, and for most of the remaining decade fluctuated between 5.4% and 6.8%. Please understand that we are for the most part a teachers' based credit union, so in June we have lower net worth because of the teachers' summer payrolls being deposited that month.

In 1999, our net worth finally broke 7% and at year end it reached 7.4%. Note that June 30, 1999 our net worth was 5.7%. This gives a picture of asset fluctuations to the net worth. It also revealed to me that TCT in June was just as sound at 5.7% as it was in December at 7.4%. We did not materially change our strategy or profile within those 6 months. The risk to capital within the balance sheet in both cases was arguably the same.

Our history and the loss of so many highly capitalized credit unions are why I have concluded that competitive viability and high capital and net worth ratios, are not always directly correlated. Not every credit union has the luxury of maintaining or growing their ratio well above the 7% level, especially in today's highly competitive marketplace. Our members have greater power of choice to do business today than when I first came to the movement in 1989.

Product pricing in the financial industry has been driven down since 2000 because of this increased competition. We compete against many companies that are much larger than us, and have economies of scale and business model advantages that we do not. General Motors, Ford, Honda Toyota, Sears, JC Penny, Walmart, Lowes the list goes on of business models that manufacture, sell and finance. We cannot do that. JP Morgan, HSBC, Bank of America and Citigroup have significant size and business model advantages. In addition to economies of scale and business lines that we cannot access to supplement our revenue streams, the large Wall Street Banks have an implicit too big to fail premium that we do not. According to Reuters columnist James Saft, in his April 29 column titled Take a pass on TBTF crapshoot, he states "A recent study by the New York Federal Reserve estimated that the largest six banks get an annual subsidy of $8.5 billion in borrowing costs which are lower because of their TBTF status." We have quite a challenge today and I do not see it getting easier in the future.

If we focus too much on building our net worth ratios at the expense of prudently reinvesting earnings into improving our competitive position, we actually place TCT at greater risk of not surviving. For every high capital ratio credit union example that is used to support the need for higher net worth there is a TCT and I suspect others that support the contrary. Furthermore, given that the marketplace will continue to be very challenging, there will soon be more credit unions like us needing to efficiently manage net worth to remain competitive for their members.

Why The Urgency to Implement Risk Based Capital?
I do not understand why the Board sees the need to quickly implement changes to our capital standards. Throughout my tenure credit unions have always exercised sound financial discretion when it comes to strategies to serve our members' needs. There have been interest rate changes, recessions and market meltdowns. All of which we managed through quite nicely. During the financial crisis we were victims not the cause. We all had to incur significant unexpected costs to our business model and we had sufficient capital under our current system to withstand the impact. This includes credit unions like TCT that at times operate at levels closer to the well capitalized minimum.

The Board has received comments from Representatives Peter King and Gregory Weeks, and at present there are around 320 members of Congress that support their letter. Congress' message to the Board is the same as mine; please do not make any dramatic change that harms credit unions and their members. Please take your time so you can properly assess the impact to all credit unions. Credit unions need to be competitive and too high of a capital adequacy framework compared to the marketplace hurts our ability to compete and help our members.

The Board has received a letter from former Chairman of the United States Senate Banking Committee, Honorable Alfonse M. D'Amato, who was instrumental in amending the Federal Credit Union Act. Mr. D'Amato stated that Congress' intent in amending the Federal Credit Union Act, and implementing Prompt Corrective Action was to not have a risk based capital standard like the banks. Congress purposefully established a higher net worth ratio requirement for credit unions than banks to recognize our difference, and directed NCUA to implement a risk based net worth where 6% is not sufficient to be adequately capitalized. It seems Mr. D'Amato is stating that this proposal goes against Congress' intent when PCA was established under the Federal Credit Union Act.

Further, the Board's explanation in the proposal for needing our PCA framework to be more like the banks, centers on a few credit unions that did not heed examiners warnings in relation to capital level and risk taking. However, the overwhelming majority of credit unions under the current framework survived the financial crisis and the contagion that spread to our balance sheets. The majority of us that remained are healthy and well capitalized, and we overcame additional considerable NCUSIF premiums in the process. This is evidence that proves the current regulation is working.

The Federal Credit Union Act requires that the Board establishes what a complex credit union is based on its portfolios of assets and liabilities. Currently the Board has a formula based on assets that defines a complex credit union. While this formula is far from perfect it does provide a test for complexity. The Board's proposal of defining all credit unions over $50 million as complex does not take into account the portfolios of assets and liabilities to determine whether a credit union is or is not complex.

It is understandable that the Board would want to review the current capital adequacy framework given the losses to the NCUSIF from the financial crisis. It is clear that current and former members of Congress have serious concerns about the proposal. There is more than sufficient evidence that the Board has time to consider what can be done to implement a risk based framework. Please take the time because the current proposal will negatively impact those of us who have successfully navigated through the financial crisis.

Risk Based Capital Proposal
Congressman King and Congressman Weeks, along with close to 75% of the House, state they very much want credit unions to not be harmed by any change in our capital adequacy requirements. The proposal as written harms members because it punishes credit unions from doing the very same things our banking competition can do. As Mr. D'Amato stated credit unions are different than banks; however, the competitive marketplace is much different and tougher than it was in 1998. So even though our not-for-profit cooperative model is different

from the banks we do need to be able to compete against them in order to help our members financially. Therefore, it is important that regulation does not become an additional competitive barrier in today's very difficult environment.

It is also important to remember that the financial crisis was not caused by the community banks that followed sound underwriting guidelines in their commercial and consumer loans. This is significant because many community banks are much more heavily invested in real estate loans and investments with some duration, and the proposal as written punishes a credit union for this balance sheet strategy.

By making credit unions meet a much higher capital standard for the same business reduces competition and will increase the power of price to for profit businesses. These businesses clearly do not have the best interest of their customers when pricing their product lines than we do. Our not-for-profit cooperative model helps all consumers by being an alternative model that prices its products in line with the interests of our members.

Risk Based Capital Proposal Penalizes A Well Capitalized TCT FCU
Attached are three presentations. The first presentation, TCT Financial Performance Ratios Compared to Credit Union Peers illustrates that our balance sheet strategies and performance are very different than what most credit unions do. We operate under a much lower net worth, we produce better investment and net interest margins and we work hard to manage our expenses so our net interest margins cover our operating expenses. Our ability to pay for our expenses with our net interest margin is rare amongst credit unions.

We also carry a higher fixed asset overhead than most credit unions because of our four offices in relation to our size. It is quite the challenge to manage our expenses, but one that we have been successful achieving. These slides demonstrate we have a proven track record of performance with asset classes that extend duration. We began our strategy in 2000 after studying local community banks real estate loans and mortgage backed investment concentrations to size. We realized that the local banks booked more first mortgages and real estate loans than we and many credit unions carry. These banks are conservative and fundamentally strong. We used mortgage backed investments with shorter weighted average lives than first mortgages to bring our real estate positions to a similar concentration. We have managed ourselves through difficult times and in up and down shifts in interest rates. In 2003 our net worth was 6.7%, mortgage backed investments were 3.3 times net worth and real estate loans were 4.7 times net worth. We understood that this is a very high concentration for credit unions and we did this with a net worth at 6.7%! Over the next three years interest rates rose significantly and our investments and loans helped us to improve our net worth from 6.7% to 8.3%. Credit quality and cashflow fundamentals are why our balance sheet performed so well. While I understand the Board's concern with duration and interest rate risk we have not jeopardized our financial soundness over the past 14 years. The current proposal's punishment for duration is too harsh for those of us who have proven we can manage it.

Our balance sheet strategies, monitoring and performance have undergone several thorough examinations over the past twelve years. The proposal's risk weights are higher than that of our banking competition. This places us at a competitive disadvantage in serving our members' needs. Please use risk weights that are very close to our competition and/or lower the minimum risk based net worth so we are not at a further competitive disadvantage than we already are to our banking competition.

Risk Based Capital Proposal How it Would Have Impacted TCT and Could Impact TCT
The second presentation, Risk Based Net Worth Proposal Impact to TCT FCU shows our net worth and classification under current regulation and what it would have been under if the proposal was regulation from 2007 to 2013. Our classification would drop from well capitalized to adequately capitalized under the proposal over this time period. Furthermore, there are two years we would border the undercapitalized level. Our backtesting reflects that this is not justified.

In addition to managing through this very challenging competitive environment, we incurred $1.78 million loss in capital from additional insurance premiums and write downs because of the financial crisis' impact on other credit unions. These costs were unexpected and not from our decisions. The mounting challenges did not stop there. Mounds of new regulations and associated costs further added on to a balance sheet dealing with lower returns because of the low rates. With the help of our balance sheet strategy and our members, we remained competitive and financially sound under extreme stress. This is the definition of a well capitalized credit union, not an adequately capitalized credit union or a credit union that borders undercapitalized.

Under the proposal you are asking our members to hold more capital than history justifies we need. The proposal should maintain correlations of well capitalized credit unions not by how few are affected by the proposal's changes, but by what has been proven over recent events.

The third presentation, Risk Based Capital Proposal Impact shows the proposal's calculations for 2012, 2013 and a couple scenarios we hope to achieve strategically. The closest under the proposal that our balance came to being well capitalized was in 2012. The primary reason was we had 24% of our assets in cash and overnight money. We had so much cash because the return to invest out on the curve prior to 2013 did not adequately compensate for the interest rate risk. The problem we encountered very early on in 2013 was that our margins felt the squeeze. Our net income had fallen to a very low level where we needed to act to avoid PCA. The great irony is that under the proposal we bordered well capitalized while we had a balance sheet that actually was not able to maintain it. What concerns me further is we were able to take advantage of the yield curve in 2013 and invest within our policy to greatly improve our net interest income. This allowed us to maintain our current well capitalized classification. We went from trends toward PCA to a net worth of 7.47% for December 2013. Our balance sheet is in a much better earnings position to help us continue with our strategic plan. Unfortunately, under the proposal our improved 2013 balance sheet borders the undercapitalized level.

Furthermore, as the presentation illustrates our strategic goals is that of a credit union trying to lend to its members. Our strategic plan could very well push us into an undercapitalized position simply by being better at earning our members' business. We are trying to do better at our mission and the proposal punishes us for that. This does not make sense to me.

We had just gone through our examination effective December 2013. We had a capital market specialist review our ALM. We were able to provide confidence that we could competently manage our IRR exposure. I have serious doubts that if we were under this proposal bordering an undercapitalized position, with a plan that shows we will likely become undercapitalized; that our DOR would have allowed the flexibility it did. Should a change in formula change whether we are sound or unsound? I hope the answer is no.

Summary

Our board of directors' work very hard with my management team to generate earnings so that we are financially sound, well capitalized and a viable credit union for our members. I am very conflicted about the need for this proposal when the facts show credit unions are operating soundly under the current law. However, I recognize why the Board is considering implementing a risk based framework. I hope the Board can use our track record as evidence and a guide to make the necessary changes to the risk weights, and well capitalized and adequate capitalized levels. These changes will not hurt our movement's financial strength

I also ask that the Board not rush any changes. The credit union system is currently well capitalized and we have proven our strength during the financial crisis. Extending time for any future changes will prevent punishing those of us who work hard to manage our capital efficiently in order to serve our members.

Finally, I ask that the Board to extend the implementation date of the new policy out at least five years to give credit unions adequate time to adjust. We must have sufficient transition time so that if need be, we can adjust our strategies and still bring value to our members. We may be financial institutions but our true assets are the people we serve. Our members use us as an alternative to the banking system because we bring them value. Those of us that remain are doing that in a sound manner.

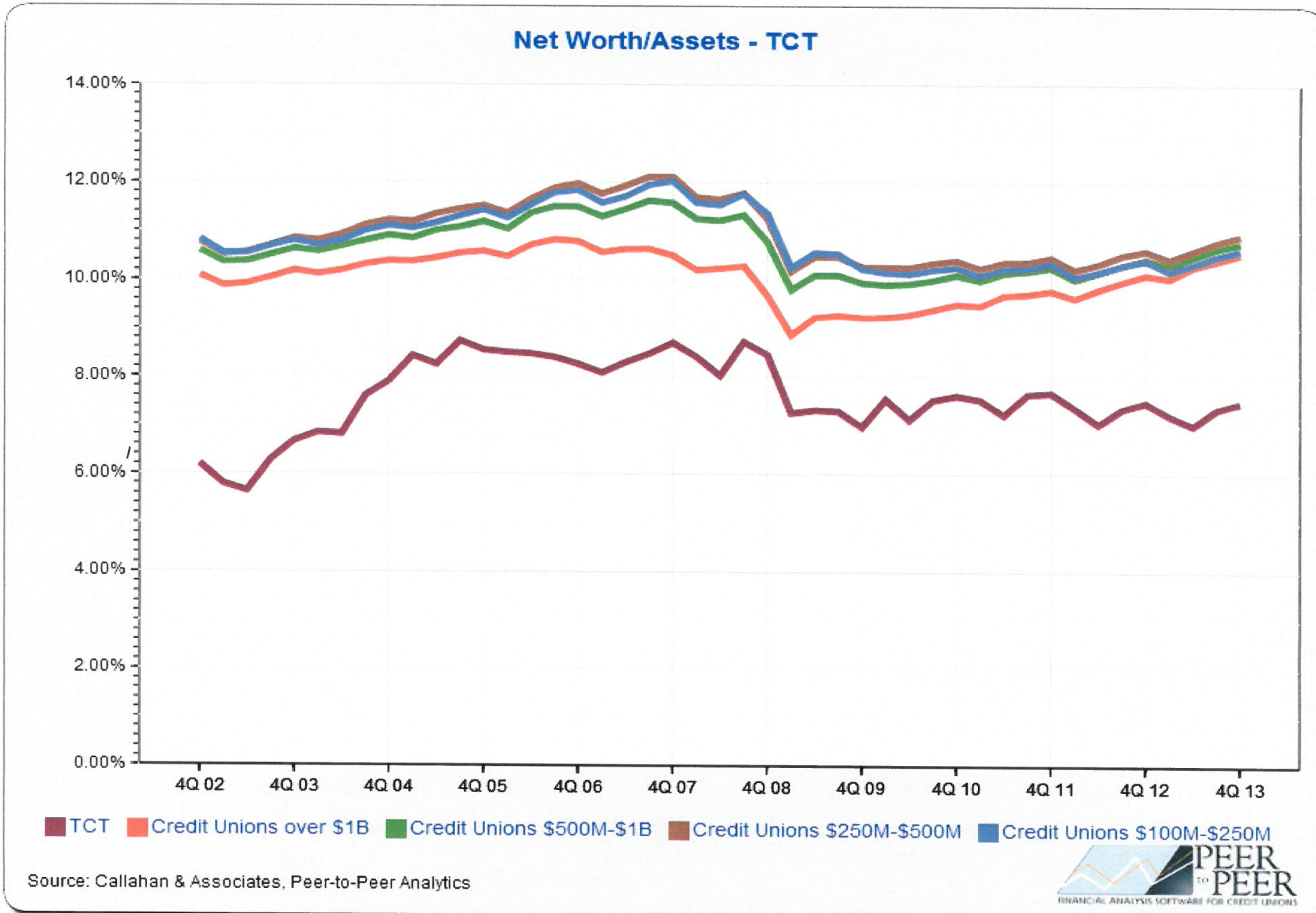
I want to thank the Board again for the opportunity to comment on their Prompt Corrective Action - Risk Based Capital proposal.

Very truly yours,

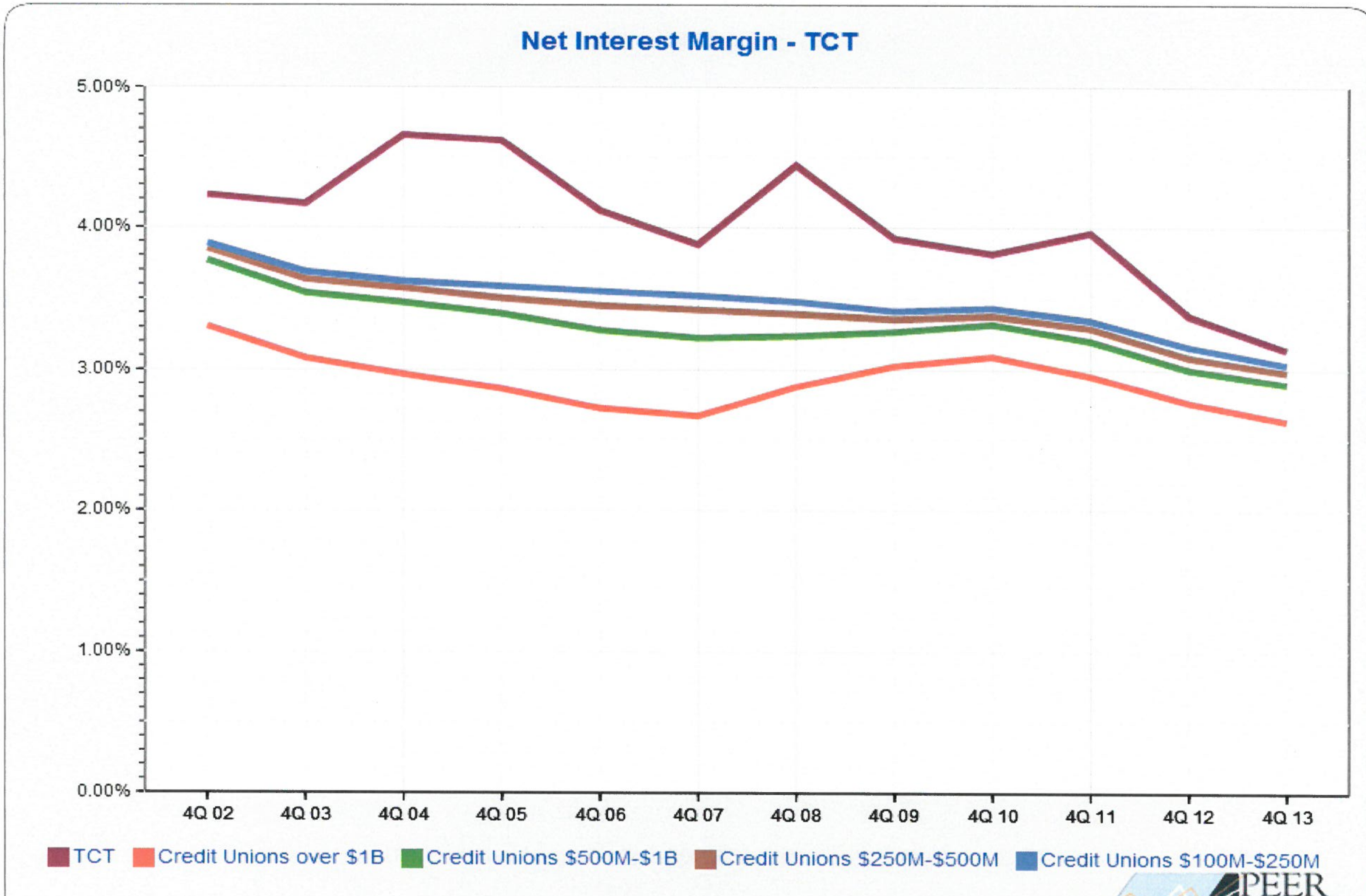
Curt Cecala, CEO

TCT FINANCIAL PERFORMANCE RATIOS COMPARED TO CREDIT UNION PEERS

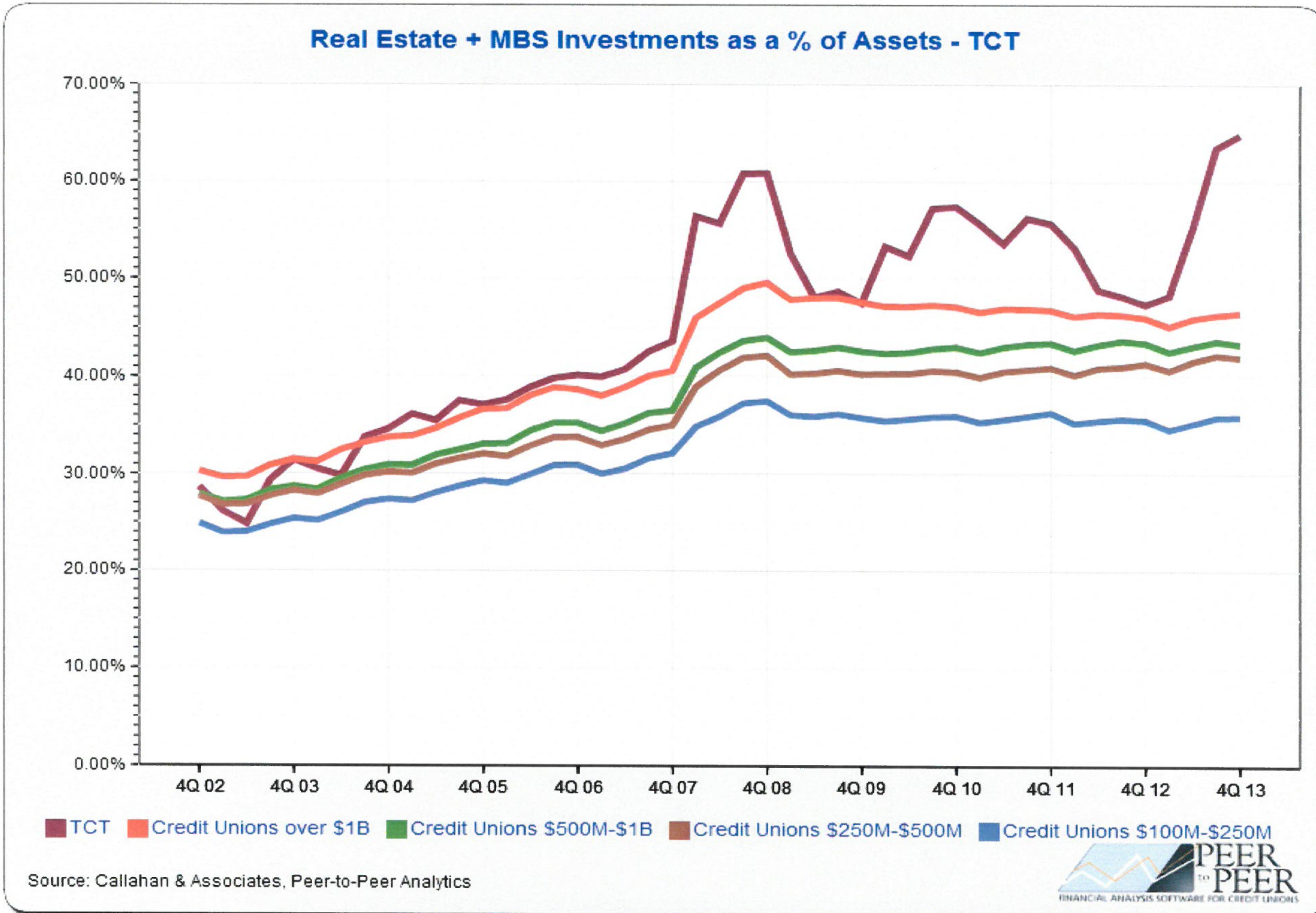
2002 TO 2013

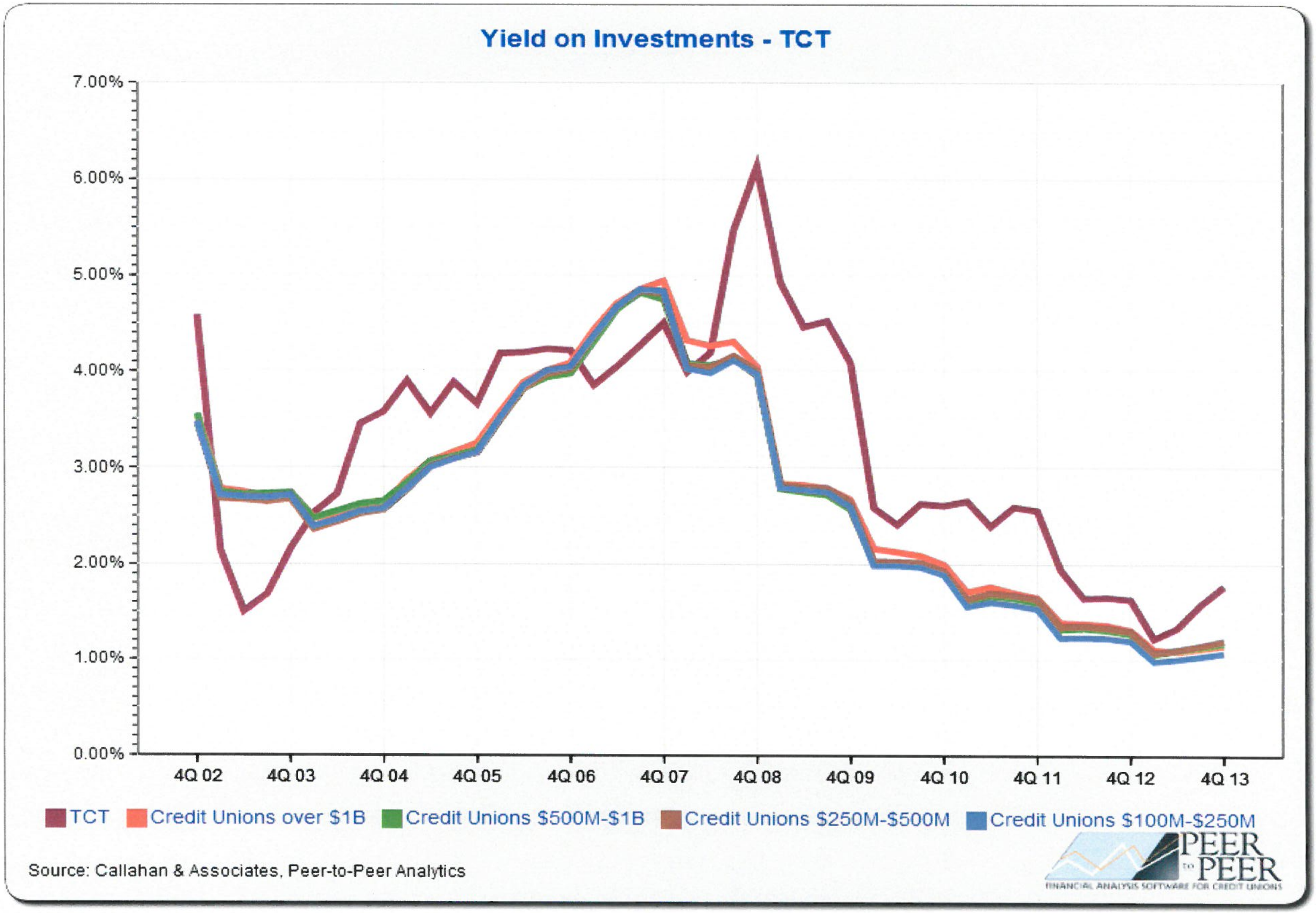


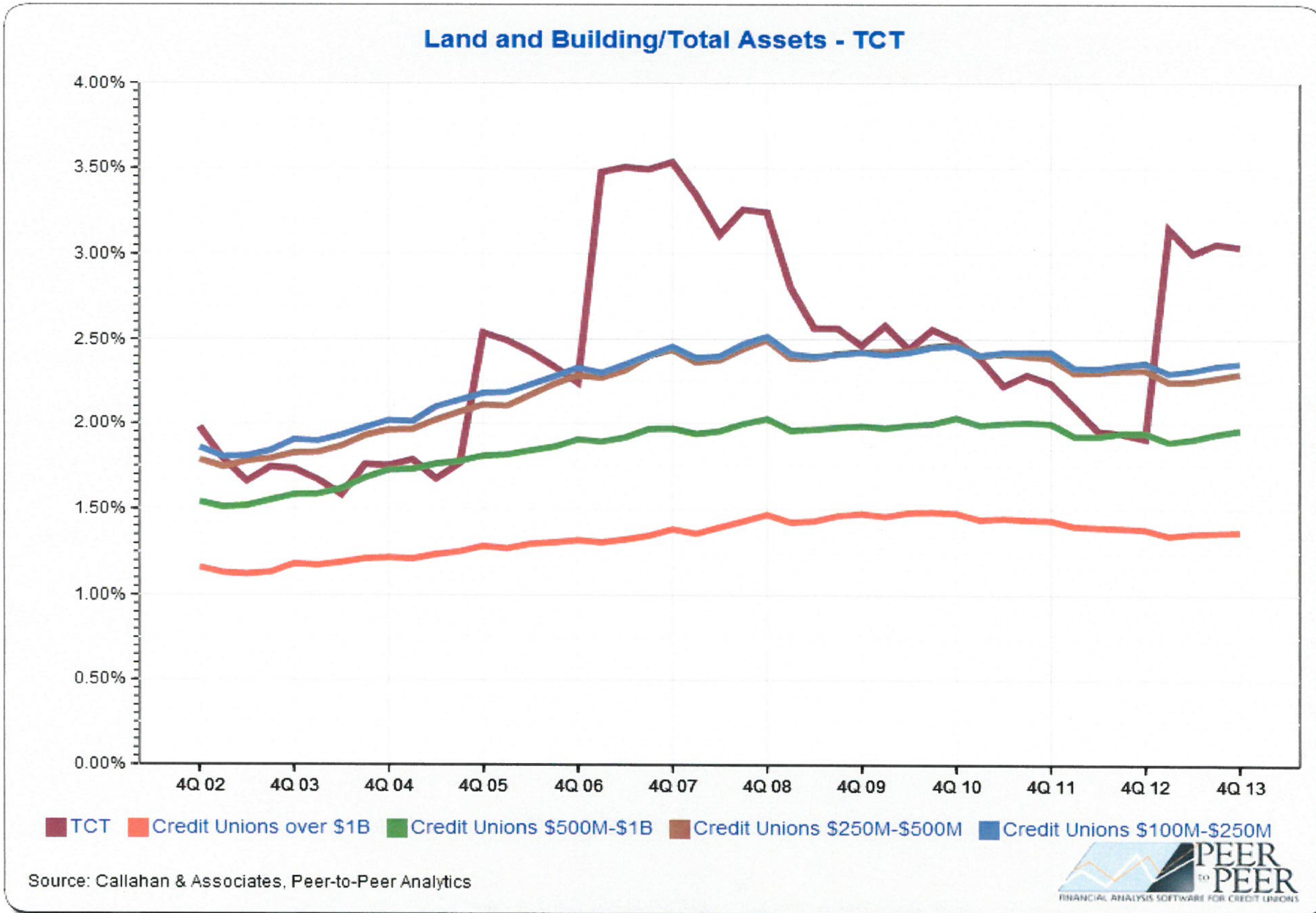
Net Worth/Assets - TCT
14.00%
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
4Q 02
4Q 03
4Q 04
4Q 05
4Q 06
4Q 07
4Q 08
4Q 09
4Q 10
4Q 11
4Q 12
4Q 13
TCT
Credit Unions over $1B
Credit Unions $500M-$1B
Credit Unions $250M-$500M
Credit Unions $100M-$250M
Source: Callahan & Associates, Peer-to-Peer Analytics
PEER to PEER
FINANCIAL ANALYSIS SOFTWARE FOR CREDIT UNIONS



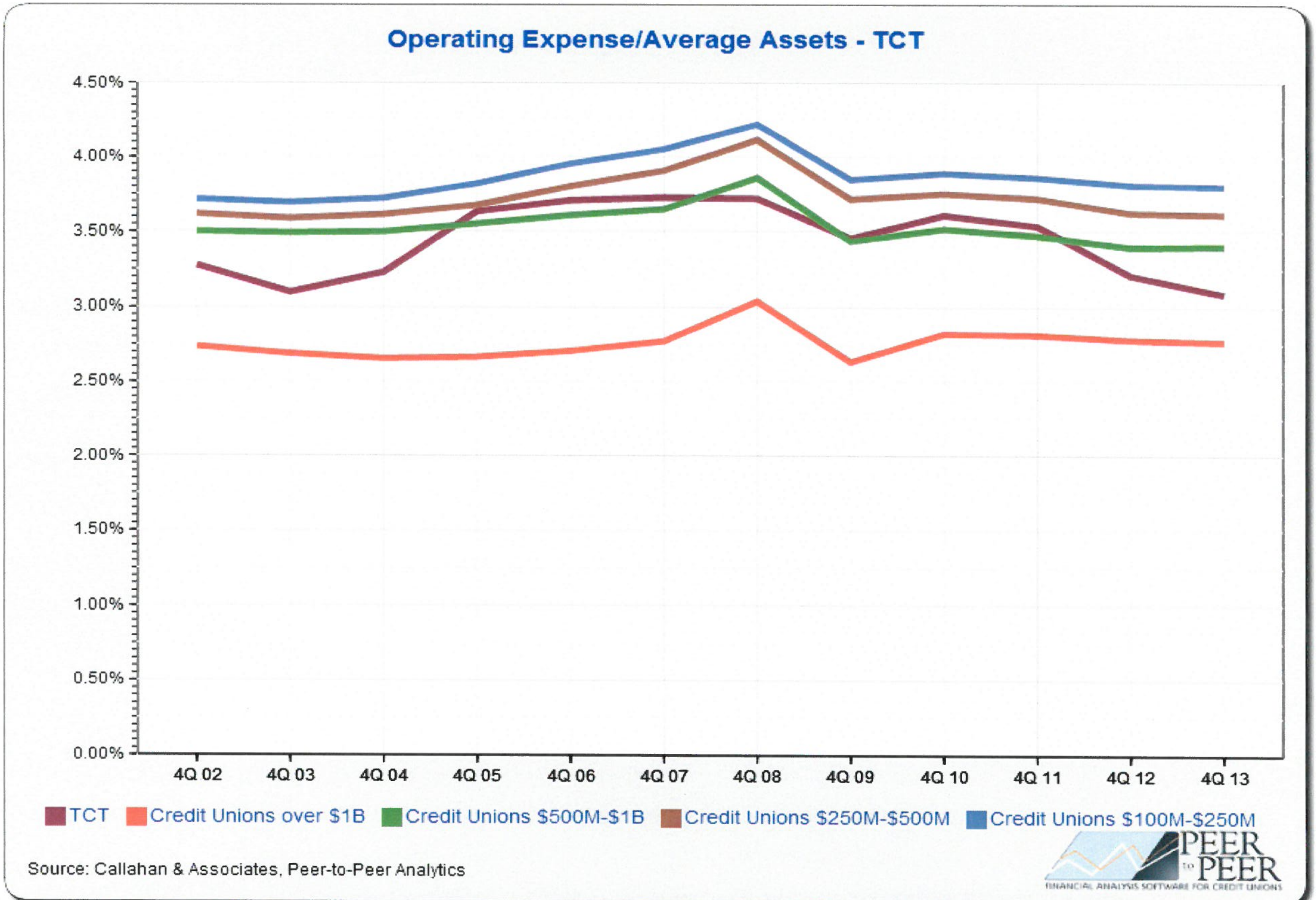
Source: Callahan & Associates, Peer-to-Peer Analytics

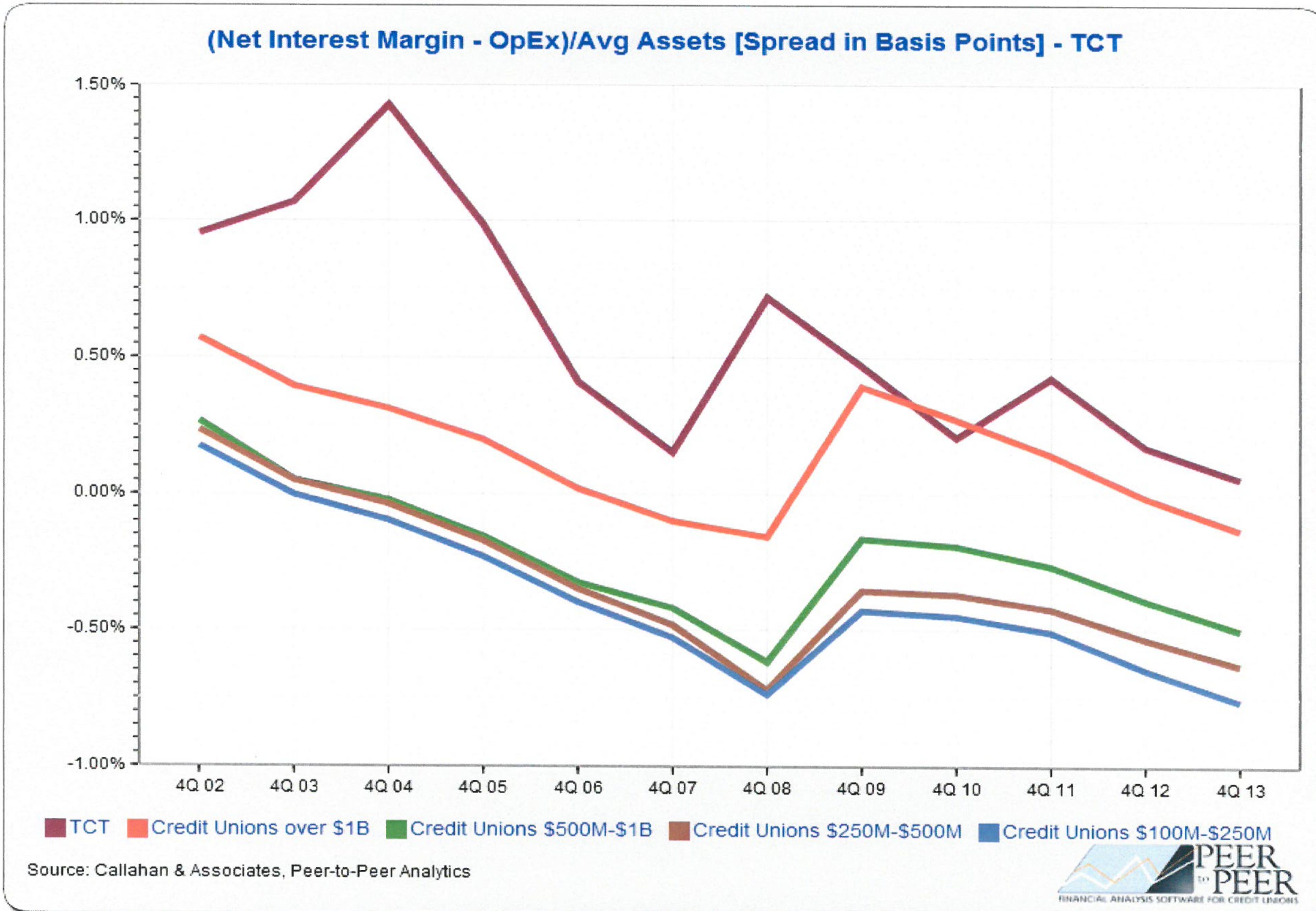

Real Estate + MBS Investments as a % of Assets - TCT
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
4Q 02
4Q 03
4Q 04
4Q 05
4Q 06
4Q 07
4Q 08
4Q 09
4Q 10
4Q 11
4Q 12
4Q 13
TCT
Credit Unions over $1B
Credit Unions $500M-$1B
Credit Unions $250M-$500M
Credit Unions $100M-$250M
Source: Callahan & Associates, Peer-to-Peer Analytics
PEER to PEER
FINANCIAL ANALYSIS SOFTWARE FOR CREDIT UNIONS


Yield on Investments - TCT
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
4Q 02
4Q 03
4Q 04
4Q 05
4Q 06
4Q 07
4Q 08
4Q 09
4Q 10
4Q 11
4Q 12
4Q 13
TCT
Credit Unions over $1B
Credit Unions $500M-$1B
Credit Unions $250M-$500M
Credit Unions $100M-$250M
Source: Callahan & Associates, Peer-to-Peer Analytics
PEER to PEER
FINANCIAL ANALYSIS SOFTWARE FOR CREDIT UNIONS

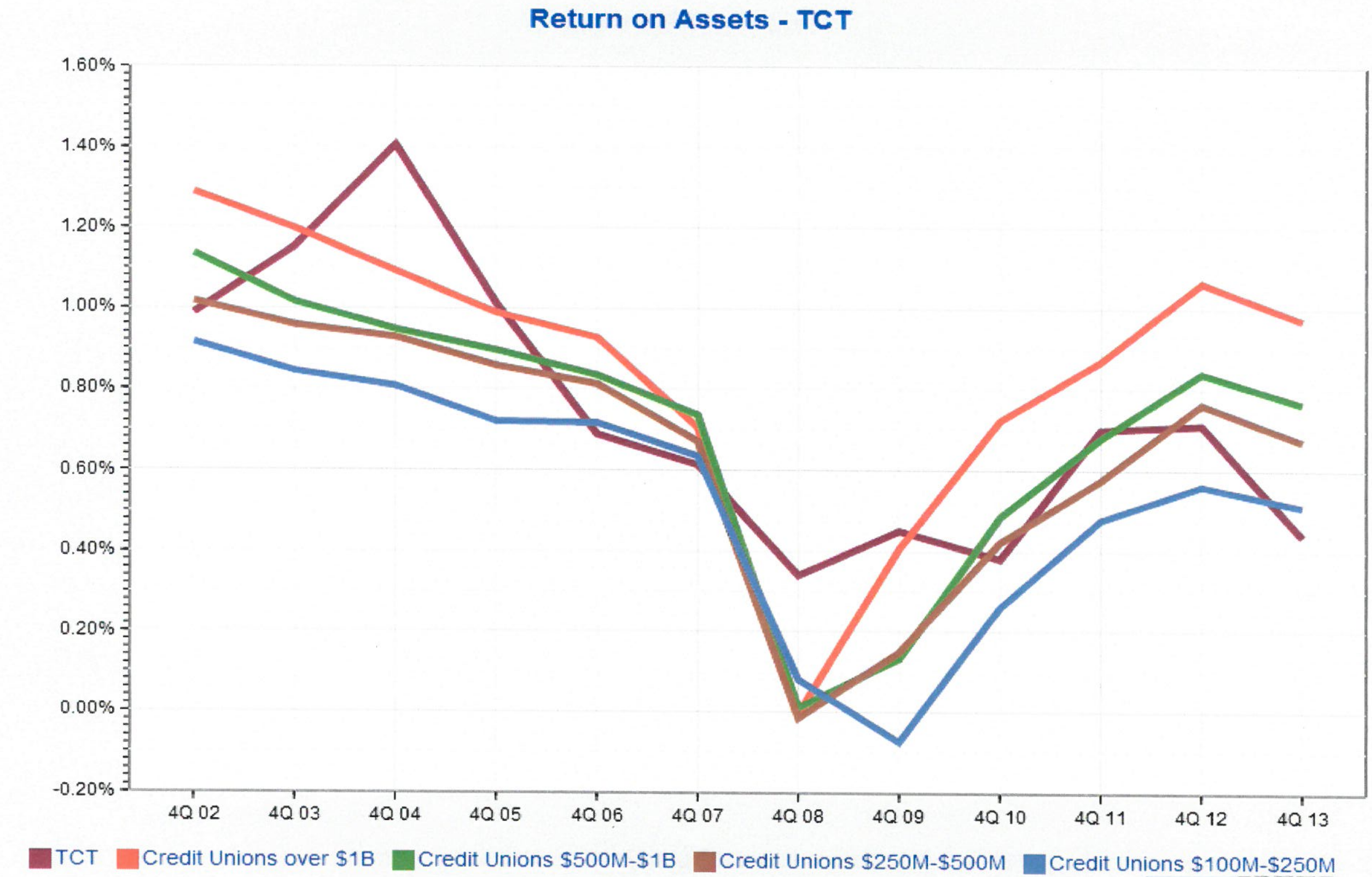


Land and Building/Total Assets - TCT
4.00%
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
4Q 02
4Q 03
4Q 04
4Q 05
4Q 06
4Q 07
4Q 08
4Q 09
4Q 10
4Q 11
4Q 12
4Q 13
TCT
Credit Unions over $1B
Credit Unions $500M-$1B
Credit Unions $250M-$500M
Credit Unions $100M-$250M
Source: Callahan & Associates, Peer-to-Peer Analytics
PEER to PEER
FINANCIAL ANALYSIS SOFTWARE FOR CREDIT UNIONS

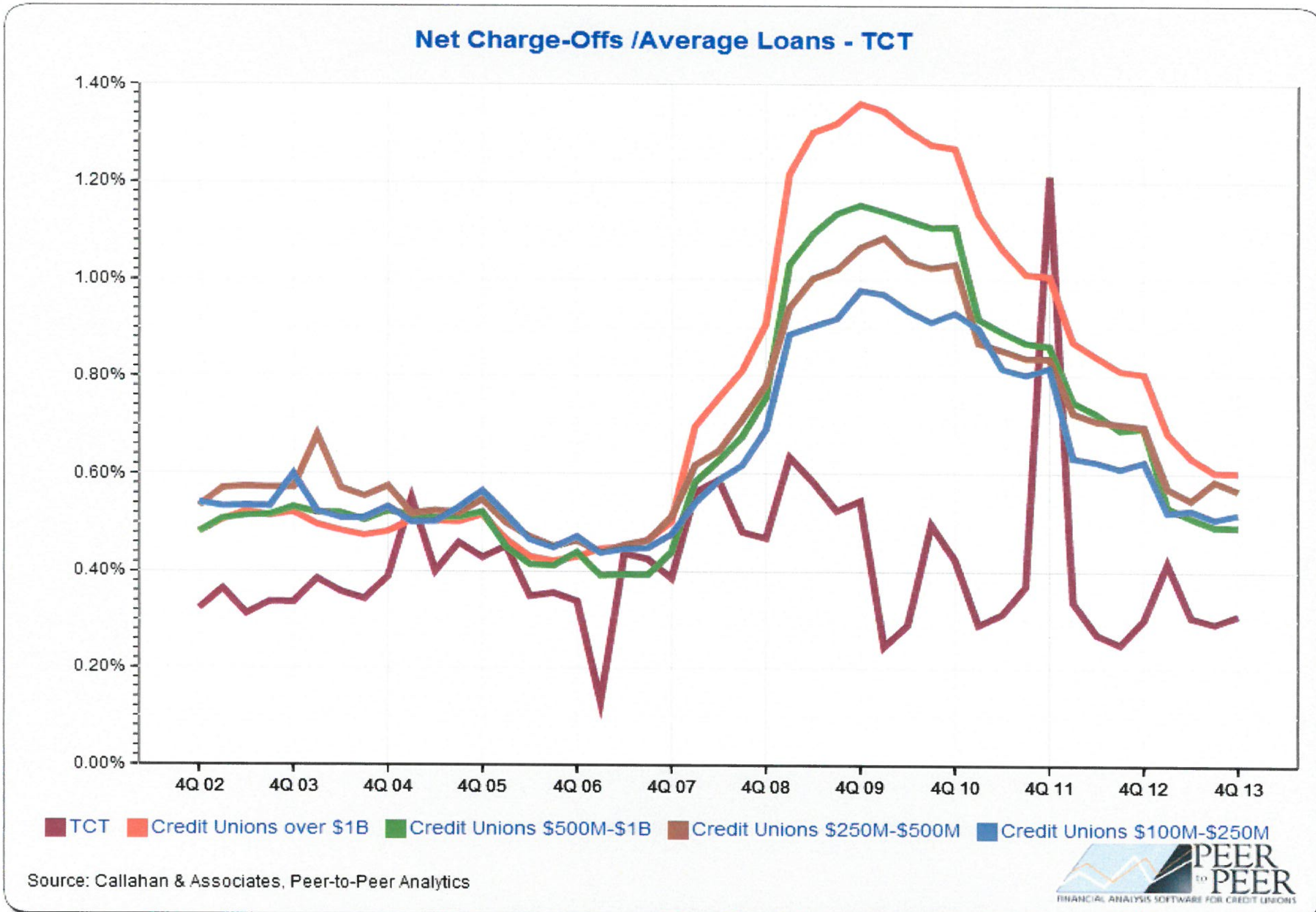

Operating Expense/Average Assets - TCT
4.50%
4.00%
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
4Q 02
4Q 03
4Q 04
4Q 05
4Q 06
4Q 07
4Q 08
4Q 09
4Q 10
4Q 11
4Q 12
4Q 13
TCT
Credit Unions over $1B
Credit Unions $500M-$1B
Credit Unions $250M-$500M
Credit Unions $100M-$250M
Source: Callahan & Associates, Peer-to-Peer Analytics
PEER to PEER
FINANCIAL ANALYSIS SOFTWARE FOR CREDIT UNIONS



Source: Callahan & Associates, Peer-to-Peer Analytics



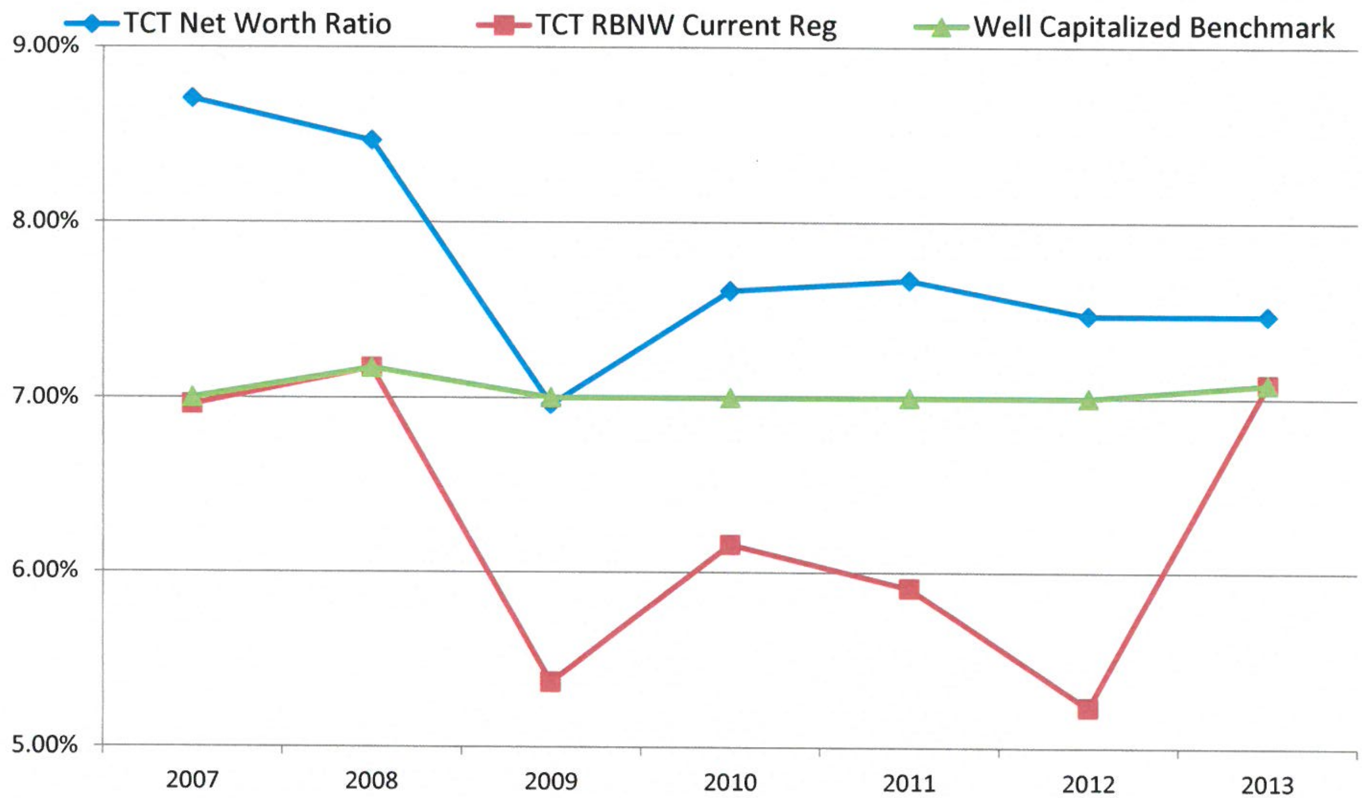
Source: Callahan & Associates, Peer-to-Peer Analytics



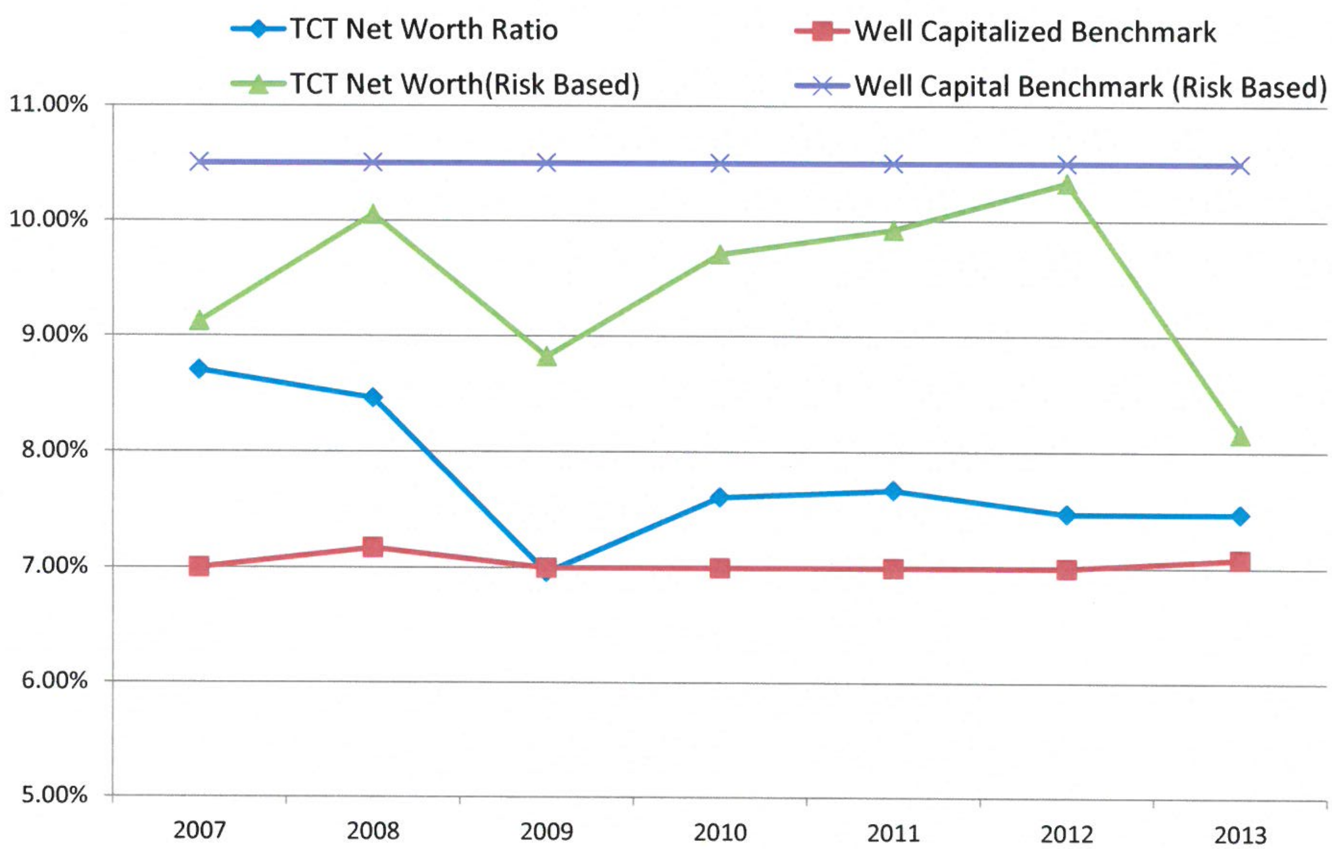
Source: Callahan & Associates, Peer-to-Peer Analytics

Risk Based Net Worth Proposal Impact to TCT FCU

Based on NCUA Proposal Released January 2014

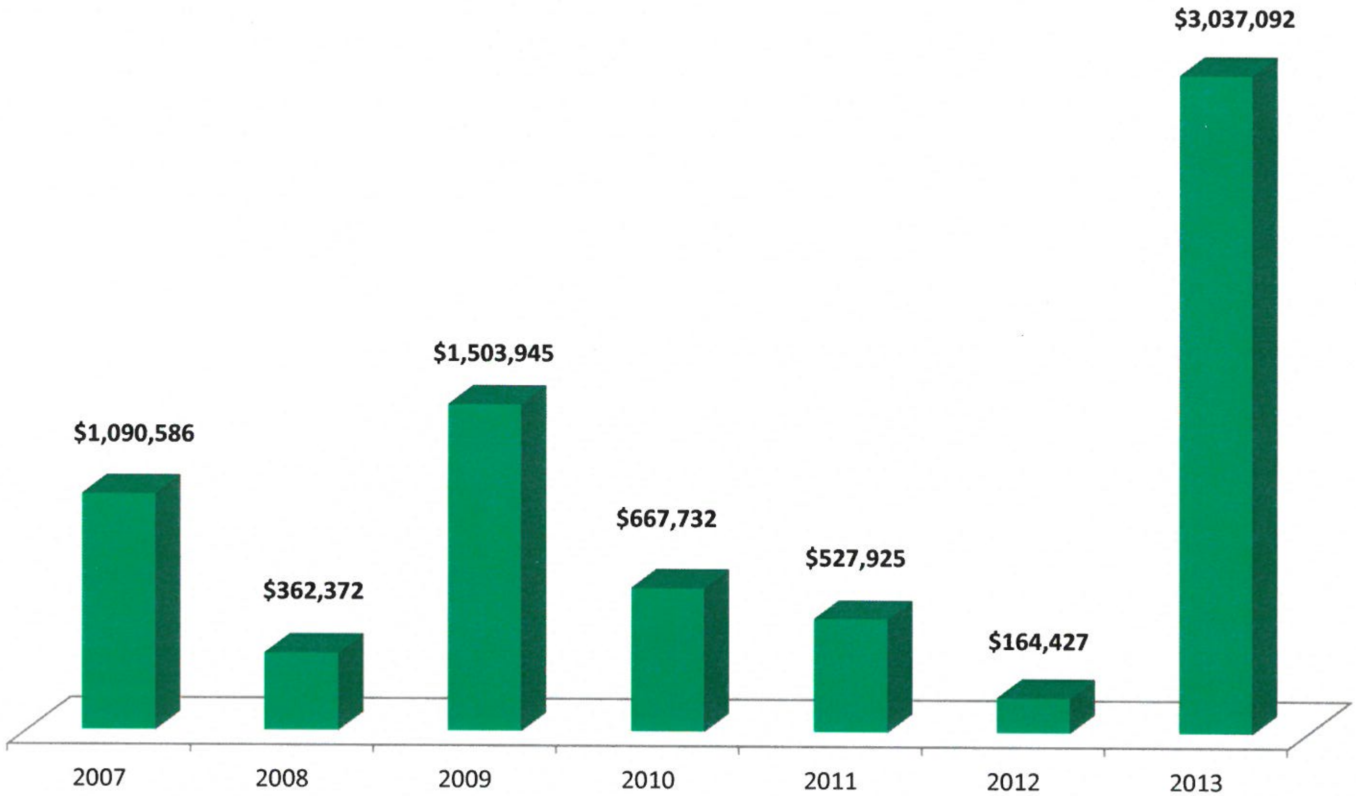


This chart shows our current net worth, risk based net worth (RBNW) and Well Capitalized benchmark under current NCUA Regulation. From 2007 to 2013 TCT was Well Capitalized.

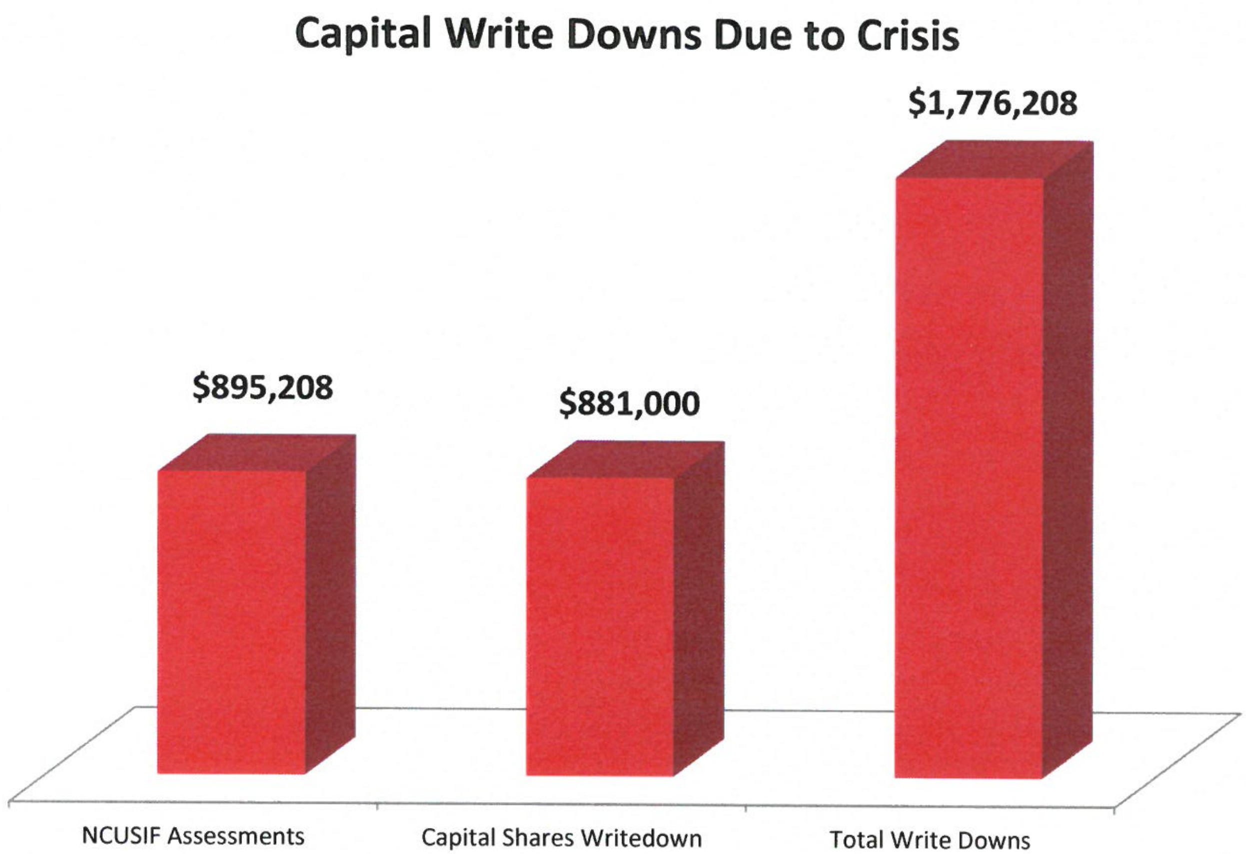


This chart shows our current net worth and what our net worth would be under the Risk Based Capital Proposal. Well Capitalized benchmarks under current NCUA Regulation and Risk Based are presented. From 2007 to 2013 TCT was Well Capitalized under current Regulation; however under the proposal we would be classified as Adequately Capitalized. Note that 2013 borders Adequate to Under Capitalized. **In other words we are Well Capitalized today and almost Undercapitalized today.** The tone of our exam would have been very different if our examiners viewed us a almost undercapitalized versus well capitalized.

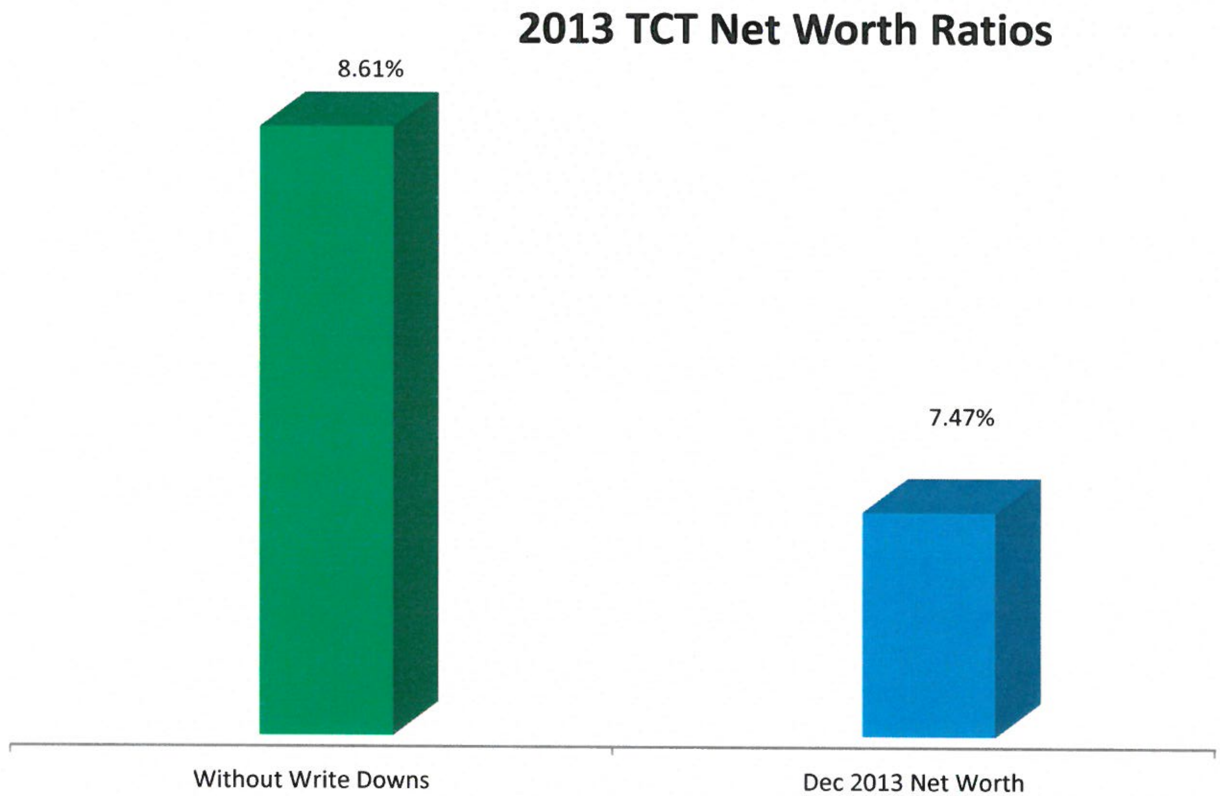
Capital Dollars Needed to Well Capitalized Under Proposal



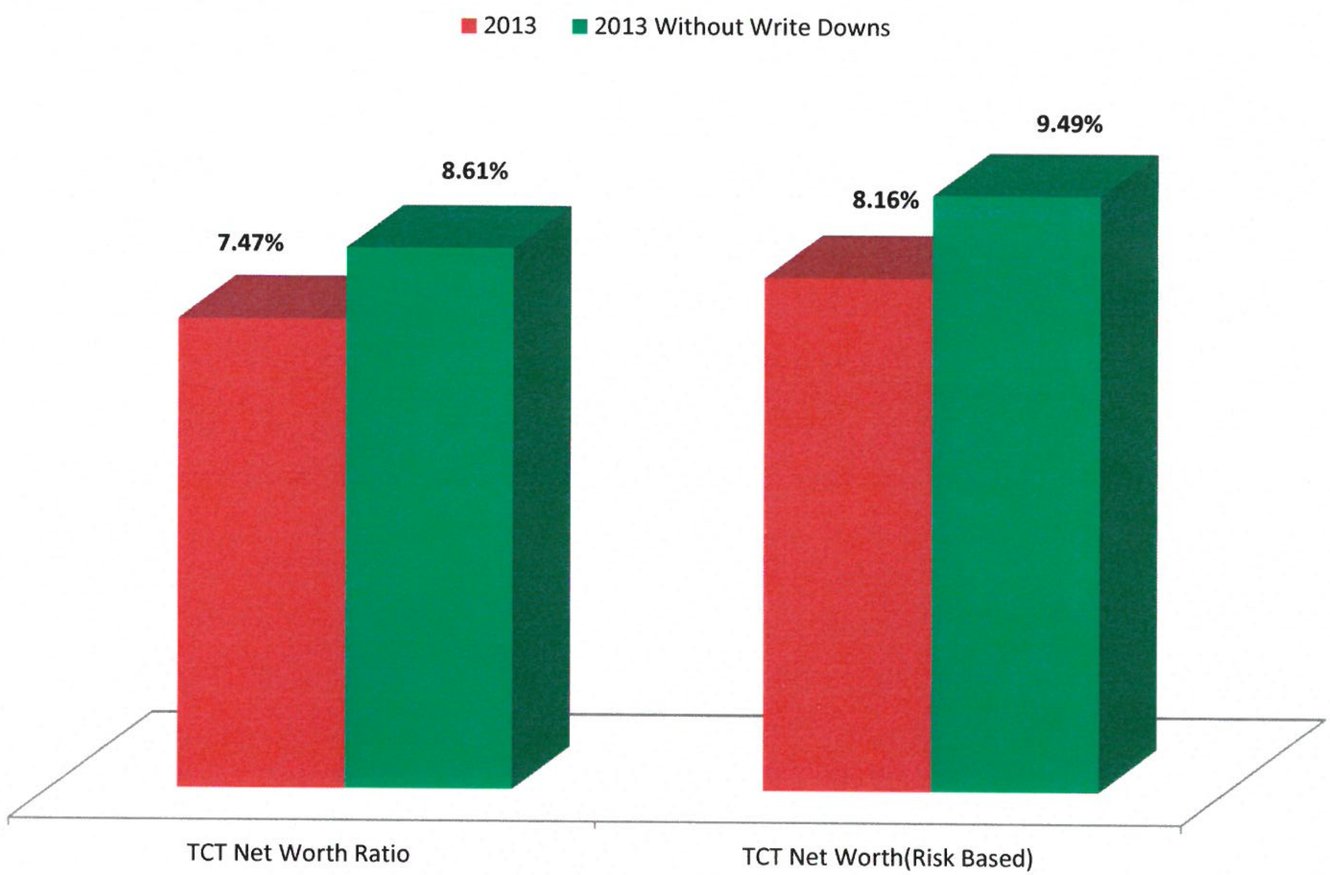
This chart shows net worth dollars increase needed under the Risk Based Capital Proposal to be Well Capitalized. The biggest reason for the increase in 2013 is our allocation from cash to government agency mortgage backed bonds. The increase in duration raises the "risk assets" requirement. The conflict is our strategy is backtested. It improved our net interest margins, profitability and net worth. We are penalized under this proposal when history proves that it is not warranted.



This chart shows the current depletion of our members' capital from the Financial Crisis. These write downs were not from business decisions we made, nor was it from decisions we had a say in resolving. **Imagine what we would have been able to do for our members with another $1.8 million!**



This chart shows our current net worth compared to what our net worth would be if our capital was never depleted. This assumes we would have maintained the depletion in undivided earnings. **There are two important points. One, we incurred close to a $1.8 million hit to our capital and maintained our financial soundness and competitiveness for our members. We are <u>Well Capitalized!</u> Second, if we invested the $1.8 million to make TCT better for our members we would be more competitive, financially stronger and still be Well Capitalized. We better fulfill our mission to our members and we make TCT stronger. This is a benefit to the NCUSIF.**



This chart shows our current net worth compared to what our net worth would be if our capital was never depleted. This assumes we would have maintained the depletion in undivided earnings. It also shows what our Risk Based Net Worth would under the proposal. We would have more of a cushion from the border of *undercapitalized* if the proposal was a regulation. However, we would still only be ***adequately capitalized*** under the proposal.

Net Worth Ratios Current Regulation and Risk Based Proposal

	2007	2008	2009	2010	2011	2012	2013	2013*
TCT Net Worth Ratio	8.70%	8.46%	6.96%	7.61%	7.67%	7.47%	7.47%	8.61%
TCT RBNW Current Reg	6.96%	7.17%	5.37%	6.16%	5.91%	5.23%	7.08%	7.08%
Well Capitalized Benchmark	7.00%	7.17%	7.00%	7.00%	7.00%	7.00%	7.08%	7.08%
Current Capital Classification	**Well**	**Well**	**Well**	**Well**	**Well**	**Well**	**Well**	**Well**
TCT Net Worth(Risk Based)	9.12%	10.05%	8.82%	9.71%	9.92%	10.33%	8.16%	9.49%
Well Capital Benchmark (Risk Based)	10.50%	10.50%	10.50%	10.50%	10.50%	10.50%	10.50%	10.50%
Adequate Capital Benchmark (Risk Based)	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
TCT's Classification Under Proposal	**Adequate**	**Adequate**	**Adequate**	**Adequate**	**Adequate**	**Adequate**	**Adequate**	**Adequate**

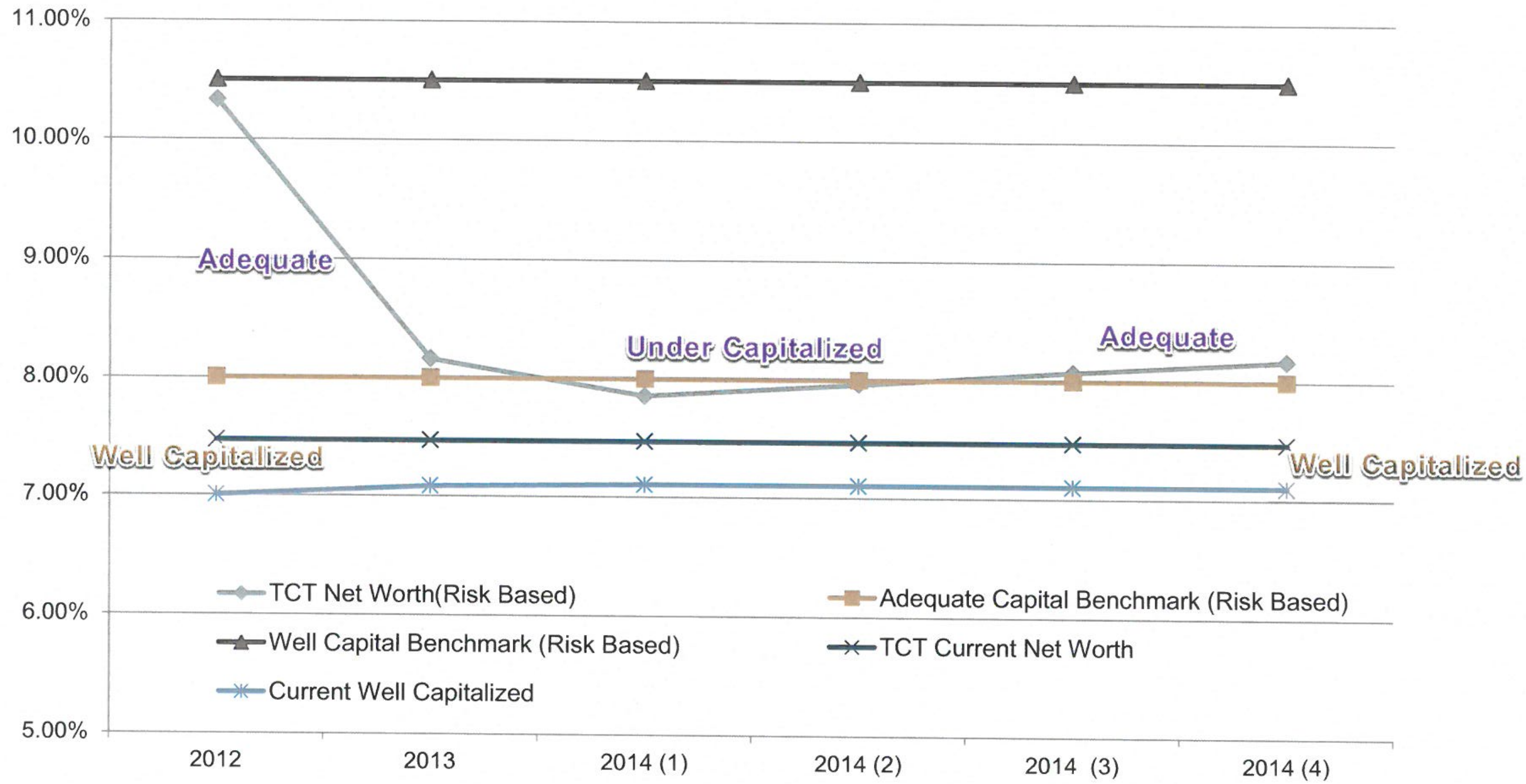
RISK BASED CAPITAL PROPOSAL IMPACT

Review 2012, 2013 and various balance sheet asset compositions for 2014

RISK BASED CAPITAL PROPOSAL IMPACT

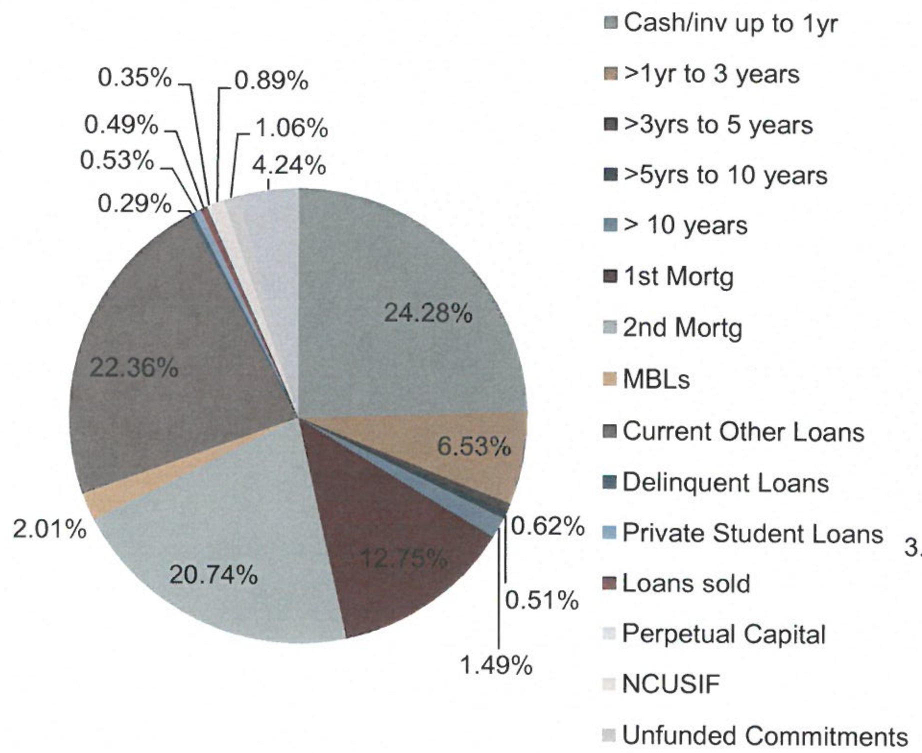
- The accompanying chart shows net worth under current capital and proposed risk based capital system. 2012, 2013 and four scenarios for 2014 were evaluated. All four 2014 scenarios have the same asset and net worth dollars. Investments and home equity loans are the only balance sheet items to change.
- In all scenarios under **current regulation** TCT is **well-capitalized**.
- In all scenarios under the **proposed risk based capital** TCT is classified either **one or two levels lower, adequately capitalized or under capitalized!**

RISK BASED CAPITAL PROPOSAL IMPACT

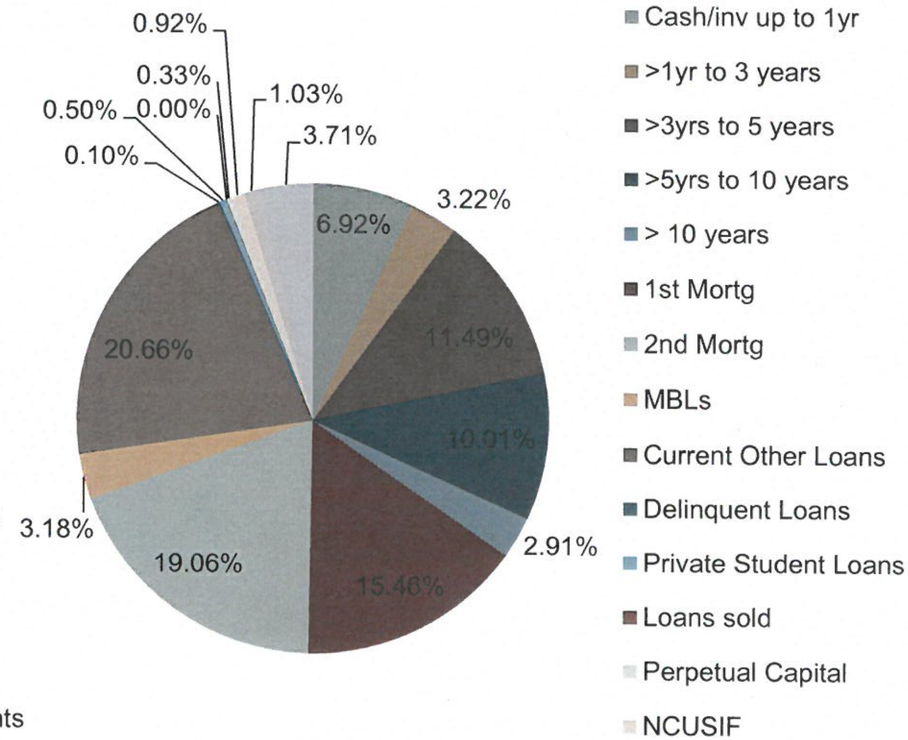


RISK BASED CAPITAL PROPOSAL IMPACT

2012 Risk Based 10.33%



2013 Risk Based 8.16%



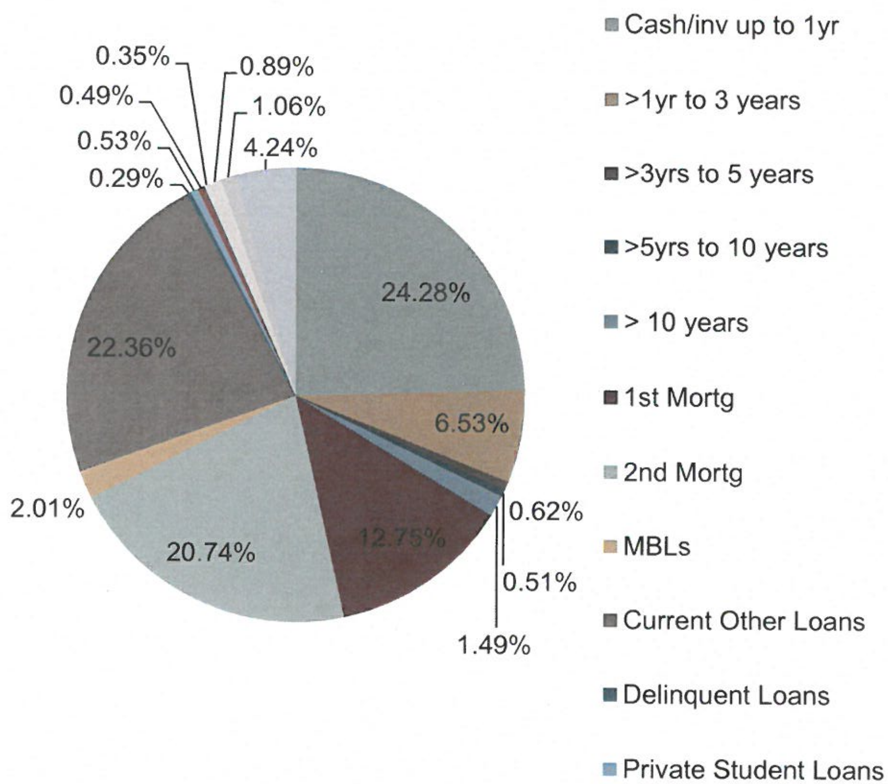
Under the proposed regulation 2012 was the closest we came to being well capitalized. 2012's balance sheet early on in 2013 was **barely profitable** due to the conservative balance sheet position of cash and 1yr investments. We were headed toward **PCA** under our growth path!

By adding duration within our policy framework we significantly improved 2013's net income. Under the proposed regulation our improved financial performance would **border the undercapitalized position!**

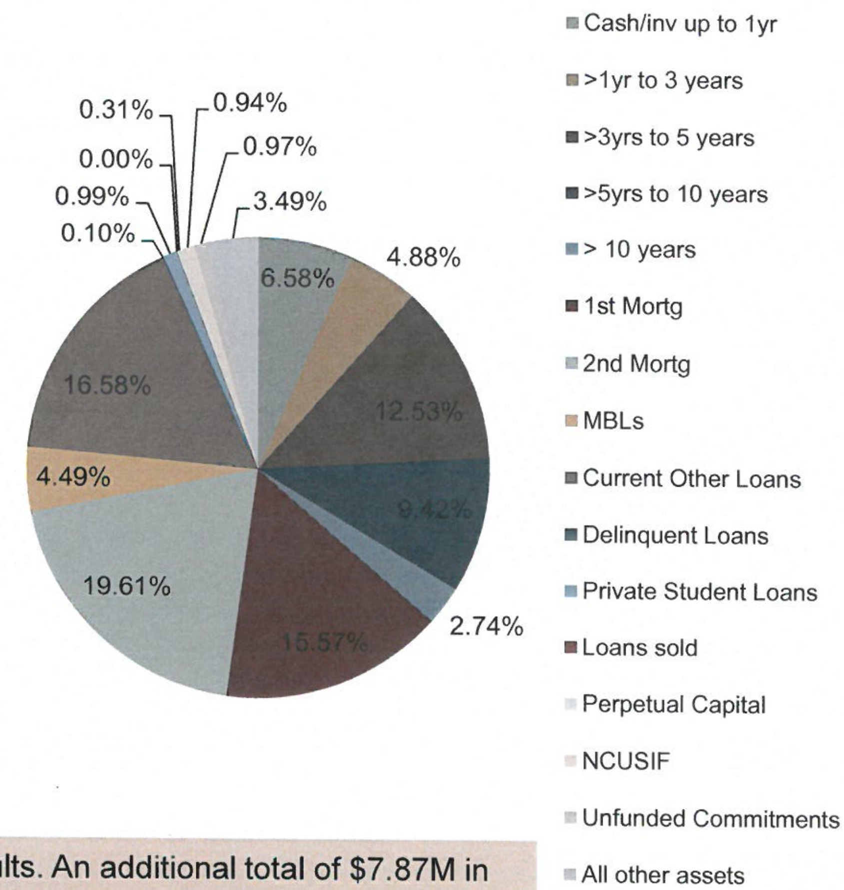
We were examined effective December 2013 and responded to the examiner's concerns about our strategy. The examination reflects a well-capitalized credit union; not an undercapitalized credit union.

RISK BASED CAPITAL PROPOSAL IMPACT

2012 Risk Based 10.33%



2014 (1) Risk Based 7.85%

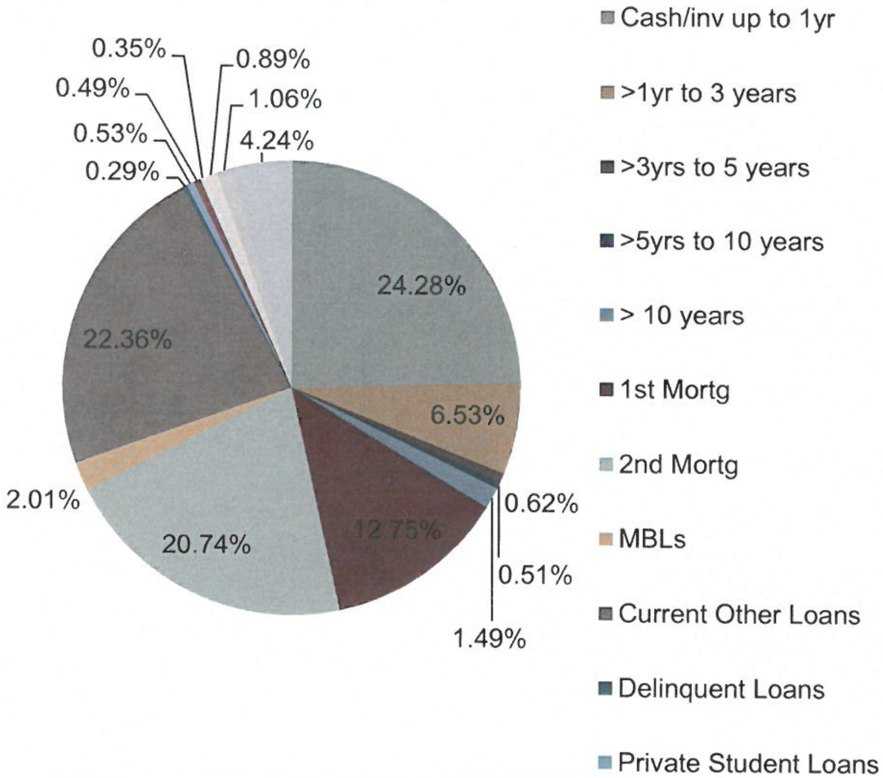


2014 (1) assumes we achieve our strategic goals using 2013's results. An additional total of $7.87M in member loans and $2.43M in MBLs. Investments are $3M higher split between 3 to 5yrs and 5 to 10 yrs. Delinquency is only 1.01%. **We are undercapitalized with a 1.01% delinquency!**

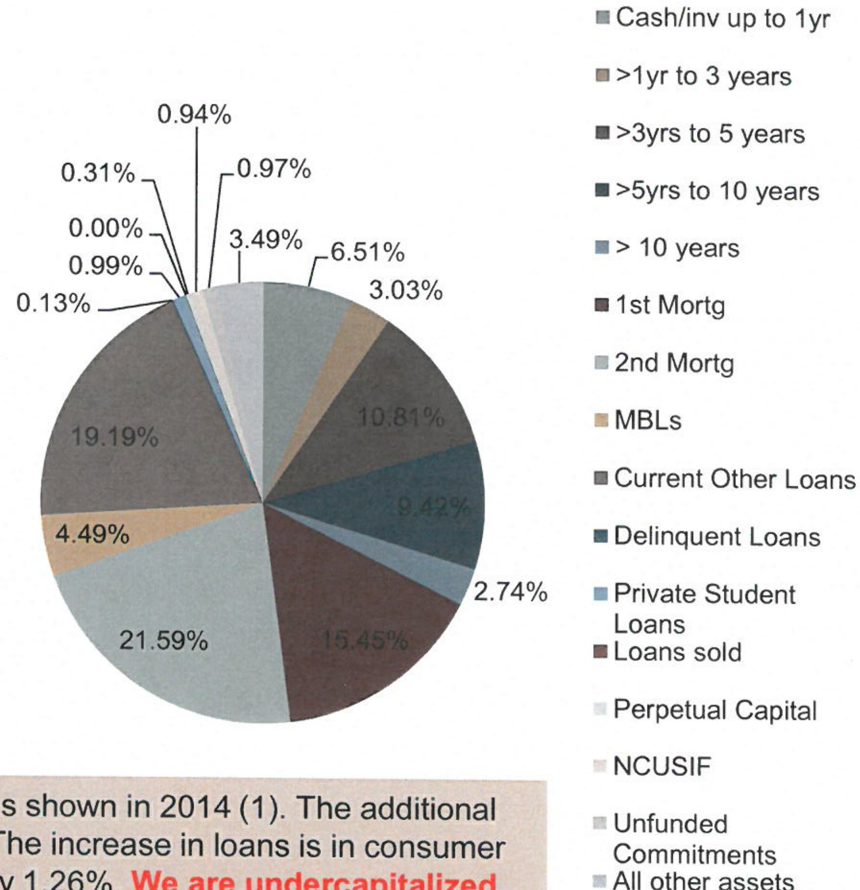
In other words similar balance sheet to what we have been managing and we drop a capital classification. We are well-capitalized <u>today</u> but under the new proposal we would be undercapitalized under this asset portfolio mix!

RISK BASED CAPITAL PROPOSAL IMPACT

2012 Risk Based 10.33%



2014 (2) Risk Based 7.96%

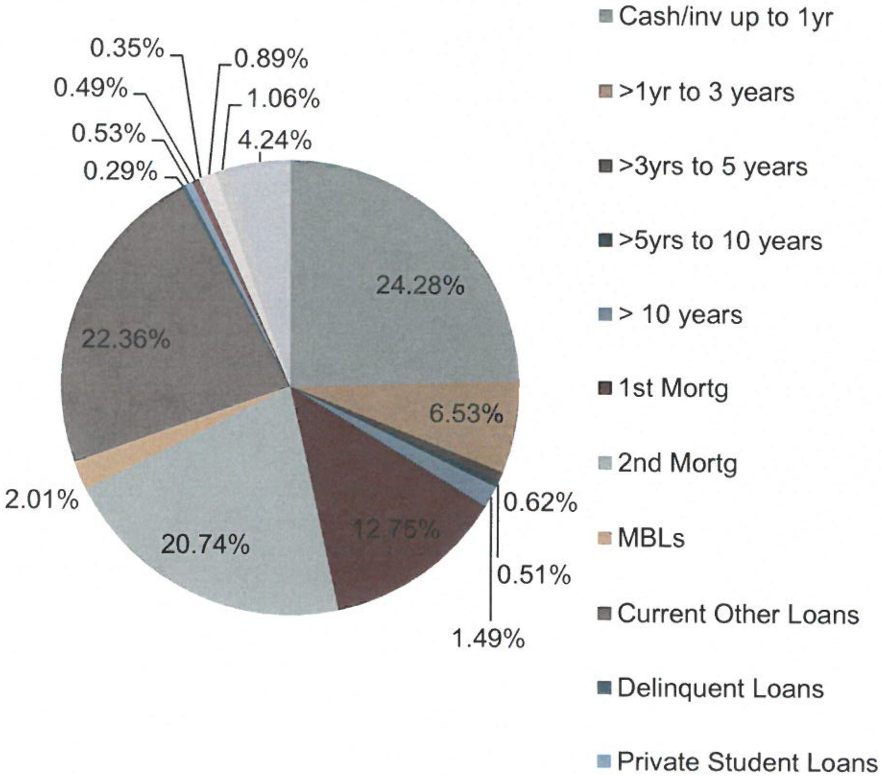


2014 (2) assumes we achieve greater than our strategic goals shown in 2014 (1). The additional loan gain is funded with fewer investments in the 3 to 5yrs. The increase in loans is in consumer and fixed and variable home equity loans. Delinquency is only 1.26%. **We are undercapitalized with a 1.26% delinquency!**

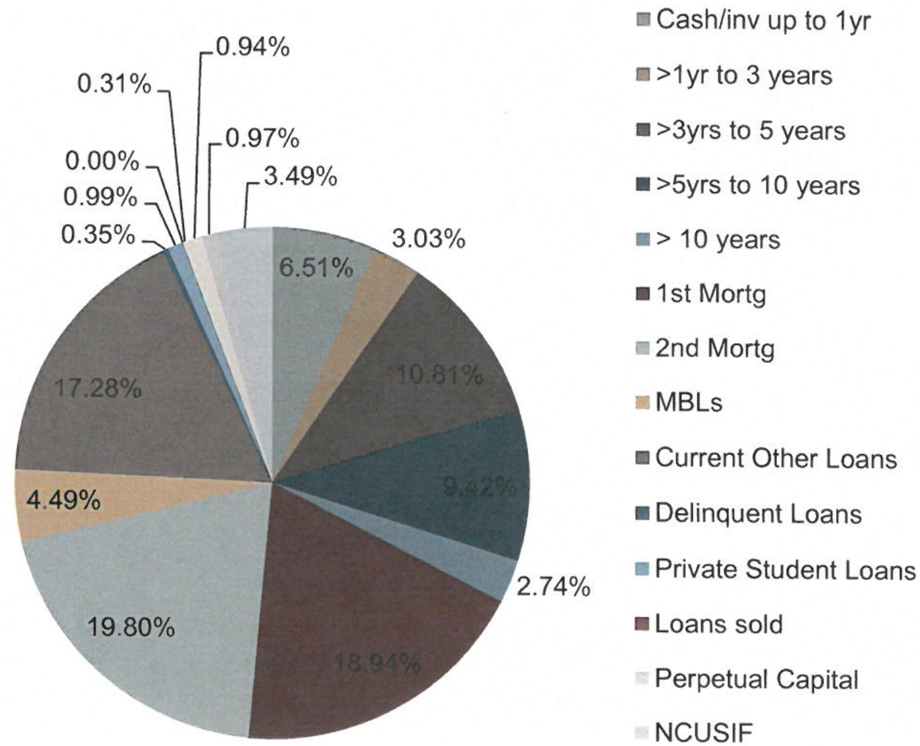
We do a better job loaning to our members and we fall from well-capitalized to undercapitalized!

RISK BASED CAPITAL PROPOSAL IMPACT

2012 Risk Based 10.33%



2014 (4) Risk Based 8.17%



2014 (4) assumes we achieve greater than our strategic goals shown in 2014 (1). The additional loan gain is funded with fewer investments in the 3 to 5yrs. The increase in loans is the same dollars as in 2014 (2) and (3); however all of the growth beyond our goal level is in fixed first mortgages.
We only have $262,475 in capital cushion from the undercapitalized level!