TARRANT COUNTY
CREDIT UNION

May 15, 2014

Mr. Gerard Poliquin
Secretary to the NCUA Board
1775 Duke Street
Alexandria, VA 22314

Re: Comment Letter on NCUA's Risk Based Capital Rule

Dear Mr. Poliquin:

On behalf of Tarrant County Credit Union (TCCU), I would like to offer the following comment letter on the recent NCUA proposed Risk Based Capital Rule. While TCCU recognizes the need for an alternative to the current net worth standard, after performing the calculations based on the new RBC Rule, we have serious concerns about the proposed Rule that we feel must be addressed or the result could be a less workable capital standard that would place us at a competitive disadvantage to our competitors.

TCCU is a $70M, profitable, well capitalized credit union operating in Tarrant County since 1955. We have successfully competed with banks and larger credit unions in our market for members and loans since our inception and have experienced a 90% or more loans to shares ratio for nearly a decade. We participate in a CUSO to offer a shared branch network and to drive our ATMs, and offer four branch locations to serve our members, as well as an online branch and mobile banking. Our savings and loan products rival those of significantly larger institutions. Our staff is heavily involved in the industry, with several employees sitting on multiple boards and committees serving the credit union community. Training is a priority in our shop, both for staff and directors, and we adhere to high standards of professionalism in a knowledge based environment. In short, we work very hard to compete in our market and serve our members, and have been quite successful in doing so for many, many years.

Currently, our mortgage loan portfolio represents 10.27% of our assets; however, over the past 30 years, not one of our real estate loans has ever fallen delinquent or been included in a bankruptcy. Additionally, we require 20% down on all home equity and 1st mortgage loans, and require a debt ratio of 38% or less. Under NCUA's proposed RBC Rule, no consideration is given to program performance or loan to value ratios in establishing the weighted risk in this category. This puts all credit unions in the same category with regard to credit risk, which is not representative of the underwriting associated with an individual credit union's loan portfolio. In this way, poorly performing credit unions' will dictate the limits of lending authority at well performing credit unions, such as ours. There needs to be consideration given to the institution itself and the performance of its loan portfolio by allowing for adjustments to the weighted risk factor. For mortgage lending, a reasonable reduction of at least 50bps, where delinquencies and charge offs in this category have remained below 2% over the past five years, would more accurately measure the risk associated with a conservative and high performing mortgage program like ours.

Another lending concern is in the area of other collateralized loans. As with most credit unions, auto loans are TCCU's bread and butter and make up the bulk of our loan portfolio. And while they represent some degree of risk, that risk is considerably less than that of our unsecured loans and should have a lower risk weight. Like mortgages, the risk weight should be adjusted, depending upon historical delinquencies and charge offs.

Of equal concern for TCCU is the excessive risk weight imposed on investments in CUSOs. As a small credit union, we rely on the cooperative structure of our industry to gain economies of scale, increase specialization and expertise, and deliver innovation. Heavily weighting the risk associated with these service organizations severely limits TCCU's ability to take advantage of its core efficiencies. Recognizing that there are risks with these arrangements, consideration should be given to the risks associated with the various types of CUSOs and the weighted risk adjusted accordingly.

Our greatest concern, however, is allowing examiner discretion to increase the risk-based capital requirement for an individual credit union, based solely on the examiner's subjective analysis of additional risk. This type of decisioning creates inconsistency and makes impossible management's ability to manage to risk requirements. Subjectivity in this area calls for an improbable level of expertise in both management of the credit union and its resources, and the risk associated with each credit union's membership, neither of which the examiner can accurately assess. Additionally, the arbitrary and subjective judgment of the examiner can differ from credit union to credit union and examiner to examiner, making it impossible to manage our portfolios to the standards laid out in the Rule, when the Rules are constantly moving.

NCUA maintains that, under the proposed new risk-based requirement, credit unions would gain further options to manage their balance sheet mix to remain well capitalized for risk-based purposes. In reality, in order to meet the well capitalized requirements under the new RBC Rule, we are being forced to redirect assets in such a way that inhibits growth and restricts our ability to serve our members. If forced to comply with the proposed RBC Rule, TCCU would no longer be managing to the needs of its members, but rather to the national, standardized risk ratings imposed by NCUA on all credit unions.

As of today, this effect on TCCU would be to shrink capital by over $700k, a 104 basis point drop in our current capital level. Given the negative impact the NCUA's risk-based capital proposal could have on credit unions, consideration should be given to allowing credit unions access to supplemental capital, in addition to retained earnings sources.

Understanding that growth resulting from deposits can dilute a credit union's regulatory capital ratio and trigger non-discretionary supervisory actions under prompt corrective action (PCA) rules, credit unions that are well capitalized should be allowed to build supplemental capital, provided the accounts are uninsured, subordinate to all other claims against the credit union, and are available to be applied to cover operating losses of the credit union in excess of its retained earnings. Allowing credit unions access to supplemental capital will help ensure well capitalized credit unions can achieve manageable asset growth and continue to serve their member-owners efficiently, especially during times of economic hardship.

Presently, credit unions have a very limited means to raise capital, and it will take a considerable amount of time to make the necessary adjustments within the balance sheet when the rules are implemented. An implementation period of at least three years is far more reasonable in allowing credit unions to reach their capital requirements than is the proposed eighteen months, and is much more consistent with the time frames given the banking industry with the implementation of the BASEL capital standards.

Generally speaking, we already have a one size fits all approach to capital requirements with our current PCA net worth ratio. If NCUA fails to incorporate performance and risk factors into its proposed RBC Rule, then all that's been accomplished is to impose additional regulatory standards on top of the current PCA standard, which will negatively impact TCCU's ability to serve its members, when we are a conservative, well capitalized, high performance credit union without imbedded risks in our balance sheet.

We appreciate your willingness to allow TCCU to comment on this proposal, and encourage you to consider possible improvements to the Risk Based Capital Rule in Accordance with our recommendations included in this comment letter.

Sincerely,

Lily Newfarmer

Lily Newfarmer
President/CEO

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