

April 5, 2014

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

Sent via E-mail to: regcomments@ncua.gov

Re: Red Crown Federal Credit Union comments on NCUA Proposed Regulation on Prompt Corrective Action; Risk-Based Capital

Dear Mr. Poliquin:

This comment letter is submitted on behalf of the members, management and board of directors of Red Crown Federal Credit Union. Red Crown was founded over 75 years ago and now serves approximately 20,000 members in the Tulsa, Oklahoma metropolitan area. I appreciate the opportunity to provide our comments to the NCUA.

While we agree there is value in adopting a risk-based approach to the amount of capital held at federally insured institutions, we have strong concerns with respect to the proposed rule. I understand that interest-rate risk is being factored into the proposal. However, in some categories, only interest-rate risk is being considered. Additionally, the approach of using only information currently available on the NCUA 5300 call report does not fairly assess the risk of certain assets.

In fact, for Category 1, the call report information is in direct conflict with the proposed regulation. According to the proposal, U.S. Government obligations directly and unconditionally guaranteed by the full faith and credit of the U. S. Government are included in Category 1 and should be zero percent risk-weighted. Red Crown Credit Union invests in overnight deposits at the Federal Reserve Bank and GNMA mortgage-backed securities, which both qualify for zero risk-weighting. However, because these investments are not segregated on the call report, the NCUA calculator includes the Federal Reserve deposits with other financial institution deposits which are weighted at 20%. The GNMA securities are being included with all other securities and being risk-weighted based on maturity. This treatment is not appropriate for investments that are fully guaranteed by the U. S. Government. The call report needs to be updated to properly report the assets which qualify for Category 1 under the proposal.

The 5300 call report does have a line item in the supplemental investment information for U. S. Obligations. However, the instructions specifically say to report GNMA mortgage-backed securities with other federal agency mortgage-backed securities. Again, I think this is inappropriate treatment of GNMA bonds because it does not take into consideration the additional strength of the full U. S. Government guarantee. Red Crown is one of the credit unions that would fall from "well" to "adequately" capitalized under the proposal. We have a significant investment in U.S. Government Obligations. If they were correctly treated as zero risk-weight, our credit union would exceed the 10.5% benchmark to be well-capitalized.

We further disagree with the proposed risk-weighting of investments in general. By simply categorizing them based on years to maturity, only interest-rate risk is being captured, and not very accurately. No consideration is being given for whether a security is fixed-rate versus variable-rate. It also does not take into consideration the credit-risk differences. For example, a federal agency security should be given a lower risk-weight than a private label issue. Additionally, the weighting for a security that has a life of 5-10 years at 150% seems extreme. Our investment portfolio is 95% federal agency securities which are highly marketable and can be sold if necessary to control interest-rate risk. They certainly bear less risk (both interest-rate and credit) than our fixed-rate first mortgages which are risk-weighted at 50%.

There are two main concerns we have with the proposed risk-weighting of loans. First, consumer loans have much less interest-rate risk than mortgage loans, yet are given a 75% risk-weight compared to the 50% risk-weight of our first mortgage loans. This would indicate only credit-risk is being considered. These loans have an average life of about two-years; some favor should be given to factor in the lower interest-rate risk.

The second issue we have with the treatment of loans is that all mortgage loans are in the same category with a risk-weight of 50% (for the first 25% of assets level). This is not appropriate because some consideration should be made for the terms of the loans (i.e. fixed versus variable rates, maturities over 15 years, etc). The result of the proposed methodology is that a 30-year mortgage has a 50% risk-weight; while a Federal agency MBS that has an average life of six years has a 150% risk-weight. This is a huge disparity considering the two assets have similar interest-rate risk and the security has less credit risk and is more marketable.

We also take issue with all CUSO investments having a risk-weight of 250%. This seems excessive especially as compared to other risk ratings. This one-size-fits-all approach does not take into consideration (a) what types of services are being provided, (b) whether the investment represents necessary operational expenses that would be otherwise incurred, (c) whether the amount invested is material, (d) whether the CUSO has a history of profitability, or (e) whether the investment amount has been fully recovered by the credit union through savings or income. Our only CUSO investment is the national CO-OP shared branching network. We do not believe this investment represents a great risk to our operation.

Finally, we disagree with the proposed timetable for implementation of the new rule. Eighteen to twenty-four months is not enough time for the balance sheet restructure that

some credit unions will need. Unfortunately, the restructuring that will be required is actually going to decrease the earnings potential and ability for credit unions to build capital. We find it disturbing that the capital standard, as proposed, will actually weaken our ability to build that capital cushion needed to protect Red Crown against risk, and will hamper our ability to grow and provide service to our members.

Thank you for the opportunity to provide our comments. Please consider their validity and make the appropriate changes to the proposal. If there should be any questions regarding these comments or the impact of the proposal on our credit union please contact me at 918-477-3202 or mschmidt@redcrown.org.

Respectfully submitted,

A handwritten signature in black ink that reads "Marsha Schmidt". The signature is written in a cursive style with a light grey rectangular background behind the text.

Marsha Schmidt
President/CEO

Cc: Suzanne Yashewski, SVP
Cornerstone Credit Union League