TDECU
YOUR CREDIT UNION

April 24, 2014

MAY12'14 PM 2:38 BOARD

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

Re: Comment to the Proposed Prompt Corrective Action – Risk-Based Capital Regulation

Dear Mr. Poliquin:

TDECU – Your Credit Union provides the following official comments regarding the NCUA's proposed risk-based capital rule. We support NCUA in the creation of a true risk based capital system; however, we believe that a more balanced approach should be taken to account for the risk management practices of each credit union. Over regulation and risk aversion forced by the regulatory system stifles economic stimulation, job growth and consumer prosperity. The proposed regulation in its existing form is overly risk averse, forcing many credit unions to focus on compliance first, and lending to consumers and small businesses second.

1. **Non-Delinquent First Mortgage Real Estate Loans -** The proposed risk-weight for non-delinquent first mortgage real estate loans and other real estate secured loans are too high and penalize credit unions for loan concentrations even though that loan portfolio has been proven through performance to be properly managed. TDECU manages asset concentrations through balance sheet and asset quality analyses on a quarterly basis and maintains manageable concentration levels, all guided by the Concentration Risk Policy.

   Our low delinquency and charge-off ratios, both reported on the 5300 Call Report, from which all applicable data for the risk-based capital calculations, reflect that performance. Credit risk for all loans, including delinquent and non delinquent real estate loans, are evaluated monthly and reserved with the TDECU Allowance for Loan Loss reserve. Qualitative risk factors are used to prudently reserve for potential losses that might not be factored from the delinquent and prior charge off loan portfolio.

   The proposal does not distinguish fixed-rate mortgages from adjustable rate mortgages, high loan-to-value from lower loan-to-value or the five-year charge-off average on mortgage loans. These are certainly factors that impact the risk of mortgage loans, yet they are not incorporated into the risk-based capital formula at all. Therefore, we see no justification for the current risk weights for first mortgages proposed in the rule and encourage NCUA to either reduce the concentration risk rates by 50 bps in each category or, if the agency prefers an earned credit approach, reduce by 50 bps each concentration risk category if the credit union's overall charge-off rate over the past five years has averaged two percent or less.

2. **CUSOs -** The 250 percent risk-weight for investments in CUSOs is arbitrary, lacking in sufficient rationale and assumes a one-size fits all for any CUSO investment. We do not feel that the excessively high 250% risk weighting reflects the actual risk of investing in CUSOs. It seems to be an example of managing to the exception of a small handful of CUSO losses, rather than the excellent performance history of the collaborative CUSO model in risk sharing and cost management. CUSOs offer a variety of value-added services to credit union members and these services should be valued separately when reviewing risks and impacts to the credit unions. We believe that the CUSO investments weighting should be no more than 100 percent. The supervisory process and the risk that credit unions incur from any CUSO investment should now be transparent to regulators and any inappropriate risks taken should be in a position to be evaluated in the annual examination and supervision process - not by a one-size-fits-all, system-wide capital regime.

3. **Investments -** The current Investment portfolio at TDECU provides for the most optimum structure required of TDECU's balance sheet. Forcing an arbitrary risk-weighting does not account for the individual needs of each financial institution's balance sheet. The current risk-weights do not accurately reflect the interest rate risk for short-term and middle-term investments such as those under a 5 year maturity and what the most optimum investment management strategy is for proper balance sheet management. The current structure doesn't provide for any reduced risk-weighting for federally insured investments or cash reserves in the Federal Reserve Bank. These should be valued at 0 based upon the lack of risk involved.

4. **Mortgage Servicing Assets -** Mortgage Servicing Assets are evaluated annually for impairment to the asset, based on Generally Accepted Accounting Principles. Giving mortgage loan servicing assets a 250 percent risk-weighting is artificially high and excessive, particularly when a credit union closely manages the portfolio.. TDECU takes a conservative approach in the value we assign to these assets as a prudent management practice. Reserving capital at a high value completely negates prudent

management. The risk-weighting should allow for the effectiveness of the risk management practices for each institution in its valuation. Allowing a lower weight of 100 percent would factor the prudent activities of management.

5. **Member Business Loans (MBLs) -** The risk weighting of Member Business Loans should allow for flexibility to identify the various types of business loans offered by a credit union. A $50,000 agricultural MBL has drastically different risks than a $15,000,000 commercial development loan. NCUA's proposed rule risk-weights for MBLs are punitive for credit unions that manage and monitor and reserve for these risks. The MBL portfolio should be given a risk-weight of 100 percent and managed through examination and supervision. Credit unions with solid business lending departments should be given credit for the investment made to support solid risk management and oversight.

6. **Corporate Paid-In Capital –** Smaller credit unions will carry the burden of this risk-weighting, as most small size credit unions rely on corporate credit unions for processing and servicing. Corporate Credit Unions are required to reserve for their own risks, so having a reserve for natural person credit unions appears to be double reserving for the same possible loss.

7. **Individual Minimum Capital Requirement -** We have serious concerns about the legal authority of NCUA to enact individual minimum capital requirements as they see fit. The purpose of the regulatory oversight role is to assist credit unions in effectively managing and accounting for risk. Imposing a blanket approach to capital requirements could add a huge level of subjectivity and uncertainty to credit union management. Could NCUA taking this line blur the lines of responsibility of boards and management and the regulators? This provision should be removed in the final rule as credit unions need to know the objective standards to which they should manage and not have to wonder how far the examiner may go in moving the goal posts.

8. **Implementation Period -** Imposing only an 18 month implementation time period could greatly impact the credit union industry and the members we serve. An implementation time period of 3 years allows time for credit unions to make changes to their balance sheets in a safe and sound manner, with minimal impact to the members served. Earnings and risk-reward analysis will need to incorporate a factor for impact to capital. Capital expenditures and long term investment decisions will need to be built to account for the new requirements of a risk-based capital. We recommend an

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effective date of January 1, 2018, or 36 months after the approval of the final rule by the NCUA Board – whichever is later.

Thank you for the opportunity to comment. We believe a more balanced approach to the regulatory makeup of a risk based capital system is in order. Every credit union member deserves the right to true prosperity.

Very truly yours,

Stephanie Sherrodd

Stephanie Sherrodd, President & CEO
TDECU – Your Credit Union

Cc: The Honorable Deborah Matz, Chairman, National Credit Union Administration
The Honorable Michael Fryzel, Board Member, National Credit Union Administration
The Honorable Richard Metsger, Board Member, National Credit Union Administration
The Honorable John Cornyn, United States Senate
The Honorable Ted Cruz, United States Senate
The Honorable Kevin Brady, United States House of Representatives
The Honorable John Abney Culberson, United States House of Representatives
The Honorable Blake Farenthold, United States House of Representatives
The Honorable Al Green, United States House of Representatives
The Honorable Sheila Jackson Lee, United States House of Representatives
The Honorable Michael T. McCaul, United States House of Representatives
The Honorable Pete Olson, United States House of Representatives
The Honorable Ted Poe, United States House of Representatives
The Honorable Steve Stockman, United States House of Representatives
The Honorable Filemon Vela, United States House of Representatives
The Honorable Randy Weber, United States House of Representatives