Thrivent Federal Credit Union™

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Via Electronic Delivery: regcomments@ncua.gov

Re: Prompt Corrective Action Risk-Based Capital Comment Letter

I am writing on behalf of Thrivent Federal Credit Union (TFCU) regarding the National Credit Union Administration's (NCUA) proposed rule, Prompt Corrective Action - Risk-Based Capital. We have 46,150 Members and $457 million in assets as of 12/31/2013, and we appreciate the opportunity to provide comments to this proposed rule on behalf of our current and prospective members.

Overall, TFCU is extremely concerned the proposed rule would have a significant, adverse impact on our ability to serve members. In particular, we are concerned that the proposal would severely restrict our ability to offer mortgage and member business loans (MBL), which in the proposed rule are assigned poorly designed and calibrated risk weights. The ability to offer such loans to our members was one of the primary reasons TFCU was chartered as part of its conversion from Thrivent Financial Bank. As a bank and now credit union TFCU has a long history of making business and mortgage loans and a demonstrated ability to manage this activity through qualified and experienced staff, strong policies, underwriting standards and other controls. Despite our demonstrated abilities to manage risks with respect to these loans, however, under the proposal, TFCU would essentially be penalized for having a high concentration of these loans regardless of credit quality, interest rate risk, or management's ability to manage the concentrations. While NCUA purports to have given consideration to other types of risk in the proposed rule ("consideration was given to credit risk, concentration risk, market risk, interest rate risk, operational risk, and liquidity risk"), there is little evidence of measuring any risks other than concentration risk for any significant classes of assets with the exception of certain investments which appear to be primarily based on the perceived interest rate risk. Therefore, TFCU believes it is imperative that NCUA reconsider the risk weightings that it has proposed for mortgages and business loans and assign more appropriate and meaningful risk weightings that take into greater account these other risk factors in any rule that is implemented.

Furthermore, TFCU is very concerned about the impact the proposed regulations would have on our risk-based capital position, which would fall from well-capitalized with a healthy margin to just barely above the well-capitalized level. TFCU remains well capitalized according to the proposed rule; however, our risk-based capital position of 10.92% under the proposed rule is only slightly above the 10.50% proposed minimum. As of 12/31/2013 TFCU's net worth ratio was 10.54%, which equates to a

42% buffer over the current risk-based net worth requirement of 7.45%. TFCU's cushion over well capitalized would shrink by a total of $12.4 million. TFCU now has a cushion over well capitalized of 309 basis points on total assets. Under the proposal the cushion over well capitalized would decline to 37 basis points on total assets representing a 272 basis point reduction in the capital cushion. Another way to look at this is that in order to maintain the same 42% buffer our risk-based capital ratio would need to be 14.91%, which would require approximately $16 million of additional capital. Even if we were to strive to have a 25% buffer (13.13% RBNW) this would still require approximately $9 million of additional capital. NCUA estimates that if the proposed risk-based requirements were applied today, the credit union average risk-based capital would be 15.7%. Thus, even if TFCU were able to regain a 25% buffer it would still be at a severe disadvantage relative to other credit unions and subject to undue reputation risk.

TFCU would have only three choices to regain this buffer:

1. Rebalance assets: By doing so, TFCU would recognize an opportunity cost when it foregoes higher earnings which would diminish its ability to grow capital.
2. Ration services: TFCU could stifle asset and membership growth. For a credit union such as TFCU that has tremendous opportunity to serve additional members from its sponsor's 2.5 million membership base this prospect is particularly troubling.
3. Ask members to pay more: TFCU could raise its loan rates and fees or cut its dividends. This would equate to less member benefit and increased competition from banks. This would also defeat one of the primary purposes of our transition from a bank to a credit union as well as the purpose upon which credit unions were founded – to offer more competitive rates and fees.

In addition to concerns with the objective risk-weighting system being proposed, TFCU has grave concerns with the proposal's provision that grants NCUA the authority to require a higher minimum risk-based capital ratio for an individual credit union in any case where the NCUA deems the circumstances to be appropriate. The proposal's description of the standard and circumstances under which this provision could apply is vague, broad, and highly subjective and, therefore, susceptible to inconsistent application. As a former thrift, TFCU has a high concentration of real estate assets and higher interest rate risk and fears that NCUA could invoke this provision to apply an even higher risk based capital requirement to TFCU, despite TFCU's demonstrated abilities to appropriately manage these risks. Therefore, we would suggest that NCUA eliminate the provision allowing for case-by-case capital requirements and stay with an objective standard applied to all credit unions to maintain consistency and fairness.

Moreover, TFCU is concerned with the fact that this proposal varies substantially from the Basel III rules imposed upon banks with whom we directly compete in our market. TFCU is especially concerned with the risk-weightings for mortgage loans and member business loans which are punitive vis-a-vis the standards applied to our bank competition. The risk-weightings for these assets appear to be structured to discourage credit unions to engage in these forms of lending. In the complex and competitive landscape of the financial services industry, it is important for federally insured credit unions to maintain their ability to offer these essential products. Under the proposed standards, we fear the NCUA is implicitly attempting to direct credit unions toward a focus solely on consumer lending by adopting punitive weights on other lending categories. This would create an even larger struggle for credit unions to compete with other financial institutions. For credit unions to remain a viable alternative to the for-profit banks, we believe it both necessary and appropriate for the proposed risk-weighting to more closely mirror those which apply to our competitors. Additionally, the proposed transition period of 18 months after publication in the Federal Register is not sufficient as it does not give lead time to plan for the new requirements and implement them properly. Basel III for banks allows for a much longer implementation period of five years and credit unions should follow a similar timeline.

Following are the specific concerns we have regarding risk weights:

- Interest rate risk and credit risk: Both are ignored in the real estate portfolio (for MBLs and mortgage loans) yet investment risk-weights are based on years to maturity (to capture interest rate risk) without taking into account credit risk. This causes incongruity between loans and investments. For example, we could have $100 million of 30-year fixed rate mortgages with a lower risk weight (50%) compared to an MBS backed by the same mortgages, which are liquid and have no credit risk with a 150% risk-weight. If we hold the investment we have less risk with three times the risk-weighted assets – which makes no sense. It is also impossible to measure interest rate risk by looking solely at investments which represent only a small portion of the balance sheet. Any attempt to measure interest rate risk on investments without regard to the overall interest rate risk of the entity (including loans) is inappropriate and will cause serious, negative, unintended consequences. All of our MBS investments are GSE (government sponsored enterprise) with implicit U.S. government backing. Yet we could invest in private label MBS which have greater credit risk and complexity with no difference in the risk weight.
- MBLs: TFCU will be penalized for having a high concentration of MBLs despite our high level of expertise in managing this business. Risk-weights are based solely on concentration levels and the escalators are too high – going from a 100% risk weight for MBLS <15% of assets, 150% in excess of 15% to 25% of assets and 200% for MBLs in excess of 200% of assets. Our strategy includes growing MBLs commensurate with our capabilities and expertise. Further growth will be impeded as it would be risk-weighted as 150% or 200%, depending on the level of growth. The proposed risk-weights also compare unfavorably to banks at 100% even though credit union business loan loss rates have averaged 50% less than those of similar size commercial banks.
- Mortgage Loans: TFCU's real estate portfolio (1st Mortgages and 2nd Mortgages) has a high current weighted average FICO with a low average default risk profile as measured by loan portfolio analysis, which takes into account credit score, migration and current collateral values. The proposed rule does not account for the credit quality of our portfolio as it is based solely on concentration levels. TFCU already falls into the second escalation tier for first mortgages (75% risk weight) and the third escalation tier for second mortgages (150% risk weight) which will severely limit further growth under this model. Basel III requirements for banks sets the risk weight for all non-delinquent first mortgage loans at 50% with no increase and 100% for second mortgages with

no increase which again would put us at a competitive disadvantage compared to our competition. At a minimum the recommended thresholds for a concentration escalation need to be increased and ideally the model should account for credit and interest rate risk.

- Mortgage servicing rights (MSRs): Weighting MSRs at 250% is penalizing credit unions for eliminating interest rate risk while still maintaining the member relationship. If properly accounted for and valued, MSRs have minimal risk. We use a reputable third party for our valuation of MSRs.
- Liabilities: The liability side of the balance sheet is ignored entirely. Mitigation of risk exists on the liability side of the balance sheet yet is not acknowledged, recognized or considered in the model.
- Unfunded commitments: The 75% conversion factor for unfunded business loans is extreme. We track usage on a quarterly basis and consistently average approximately 50% usage. To assume that the remaining 50% converts and is utilized at 75% is not supported by our historical usage trends.

Following are the specific concerns we have regarding the numerator deductions:

- NCUSIF deposits: Deducting NCUSIF deposits from capital equates them to intangible assets such as goodwill. This is an inappropriate treatment of an asset that would, in fact, be available to meet the claims of members and other creditors in the winding up of a credit union. The premiums required to keep the NCUSIF at its target level are expenses to credit unions, just as FDIC premiums are expenses to banks. If the value of the NCUSIF deposit were to be impaired, it would be restored through assessments on credit unions in the same way that the FDIC fund is restored through assessments on banks. Thus, the NCUSIF deposit is an asset that would be available to meet claims on the credit union when it was wound up, quite unlike an intangible asset.
- Goodwill: By deducting goodwill from assets any strategy that we may want to have for growing through mergers is essentially eliminated.
- ALLL: NCUA should be prepared to increase the amount of ALLL permitted in the numerator if FASB issues a final rule requiring higher levels of ALLL.

Thank you for the opportunity to comment on this proposed rule and for considering our views on risk based capital requirements. The rule to move "complex" credit unions to a risk-based capital standard is a step in the right direction. However, the simplistic and broad brush approach penalizes complex credit unions such as TFCU because the measurement does not reflect the true risk. This proposed rule does not appear to consider the impact to the reputations of those credit unions with complex products and services. This approach would have a significant negative impact on our ability to grow and serve current and prospective members. Therefore, we strongly urge NCUA to reconsider its proposal.

If you have any questions about our letter please feel free to contact me at 920-628-4043.

Sincerely,

Christine Cousineau