OKLAHOMA EMPLOYEES
CREDIT UNION

Date: May 15, 2014

MAY19'14 PM 1:57 BOARD

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

Re: NCUA Risked Based Capital Rule

Dear Mr. Poliquin:

On behalf of Oklahoma Employees Credit Union (OECU) and the 42,500 members in which we serve, we oppose the NCUA Risk Based Capital proposal as written for the following reasons.

Imposing a 10.5% Risk Based Capital ("RBC") requirement on well capitalized credit unions is unjustified and exceeds NCUA's legal authority under the Federal Credit Union Act. As recently stated by former Senator D'Amato (who was instrumental in developing the controlling legislation), Congress did not intend to apply a risk based capital standard to determine whether a credit union is well capitalized. Any RBC requirement should apply only to situations where the 6% net worth ratio for the requirement to be adequately capitalized is insufficient to protect the credit union. As to that determination, we feel that requiring as high as 10.49% risk based capital for adequately capitalized credit unions is unjustifiably too high.

Although OECU, and many other credit unions will remain well capitalized under the proposal, most credit unions will be negatively impacted by the rule as proposed. Our national association anticipates that the proposed rule reduces overall capital held by credit unions by $7.3 billion. Thus, if credit unions wish to restore the buffer they have under the current rule, they would need to raise an additional $7.3 billion in capital, which is no easy feat due to the constraints on how credit unions may raise capital. Such a proposal only intensifies credit unions' need for supplemental capital. A buffer above the threshold allows the credit union to be prepared for unforeseen variances and to avoid additional scrutiny.

Allowing the NCUA to determine higher capital amounts on a subjective basis leaves credit unions uncertain. We expect for all credit unions to be treated the same. And, knowing in advance what the capital requirements will be is an important part of our planning process. Additionally, as any risk based capital calculation would consider the unique balance sheet of each credit union, any additional requirements would seem to be unnecessary.

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<u>The proposed risk based capital weights appear to be unsubstantiated and may focus credit unions more on capital requirements than managing actual asset risk</u>. While the short term investments risk weights are far less of a burden than the long term risk weights, at 150% and 250% respectively, it seems to force the OECU into short term investments. This strategy only hampers OECU, by limiting the earnings we use to invest in new products and services to OECU's membership. The CUSO risk weighting of 250% seems tremendously high and all-consuming with no justification. Encompassing all CUSO's in this category does not take in the consideration the types of CUSO services that are being provided, profitability of the CUSOs, whether the investment represents necessary operation expenses that would be otherwise incurred, and the risk adversity that each credit union takes on with each CUSO investment. OECU has serviced mortgage loans for many years. They have performed well and we perceive the risk associated with these loans to be low. Similarly, OECU has experienced virtually no losses on member business loans. We believe the portfolio, which is largely real estate based, to be quite conservative. The potential 250% weighting for these areas appears to be unreasonable in our experience. It seems any additional capital requirements should be based on actual losses as opposed to an arbitrary figure. This large weighted risk potential would limit OECU's ability to provide mortgages to our members.

<u>Undue capital requirements would unnecessarily restrict high demand services and limit "mix" options</u>. Additional capital requirements would limit credit union options for pricing, channel delivery, and infrastructure investment. Things like higher dividends and additional branches. In particular, we expect mortgages and member business loans to be in high demand going forward and they are an important part of our growth and diversification strategy.

<u>The 18-month timeline to comply with the new requirement seems far too demanding</u>. To increase capital requirements within 18 months is very aggressive. It's a dramatic balance sheet change for those credit unions that need to set aside large amounts and may significantly limit other business plans during that time. This requirement could be more of a burden if other regulatory requirements are placed on credit unions during this period. Even a 1% annual increase in the capital requirement is a meaningful increase and much more palatable or even a 36 month integration period. The same ultimate goal would still be reached.

<u>To exclude Goodwill appears to detract from safety and soundness</u>. It would seem that the opportunity for healthy credit unions to acquire troubled credit unions at no cost to the NCUSIF should be encouraged and facilitated. Inclusion of Goodwill in the risk based capital ratio calculation would likely increase the number of bidders and bid amounts for credit unions who are candidates for mergers.

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<u>OECU questions whether NCUA has properly evaluated the paperwork burden of the proposal.</u> According to NCUA, credit unions would be subject to additional recordkeeping and information collection requirements if the proposal is adopted. NCUA estimates that the rule will create an additional 122 hours of annual paperwork for non-complex credit unions and 162 hours for complex credit unions. One critical factor that the agency has not apparently included in its analysis is that the proposal if adopted would require credit unions to review their policies and make portfolio changes such as selling assets or restrict growth in order to minimize the impact of the proposal on their capital. NCUA should be required to make public a detailed analysis of the burdens that will be created by the proposal so that credit unions and other stakeholders can properly analyze the agency's estimate under the Paperwork Reduction Act.

<u>Finally, we hope that NCUA has taken note of the congressional comment letter signed by approximately 75% of the members of the United States House of Representatives</u>. In this letter, the Representatives urge NCUA to ensure that the proposal does not adversely affect credit unions and their members. The letter urges NCUA (as does OECU) to take into account the burden of implementing a new RBC requirement, to provide justification and clarity to the proposed risk weights, and to provide credit unions additional time to comply.

Thank you for your consideration. OECU appreciates the opportunity to comment on these issues. OECU strongly and respectfully encourages the NCUA to consider possible improvements to the Risk Based Capital Rule in accordance with OECU's, other credit unions, credit union members, and finally businesses associated with credit unions, recommendations that have been submitted throughout this comment period. This rule will affect the safety, soundness, and long term viability of the credit union movement for years and decades to come. Should you have any questions or wish to discuss, please feel free to contact us.

Sincerely,

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Chairman

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President/CEO

Cc:

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