Truliant Federal Credit Union
3200 Truliant Way
Winston-Salem, NC 27103-5613
336 293 2001 Phone
336 293 5285 Fax
Marcus@TruliantFCU.org
www.TruliantFCU.org

Marcus B. Schaefer
President/CEO

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

Re: Comments on NCUA's Proposed Rulemaking for Prompt Corrective Action - Risk-Based Capital

Dear Mr. Poliquin:

I am writing on behalf of Truliant Federal Credit Union in response to NCUA's Proposed Rulemaking for Prompt Corrective Action - Risk-Based Capital. Truliant Federal Credit Union is a $1.7 billion credit union serving over 185,000 members in and around North Carolina.

Truliant Federal Credit Union (Truliant) is an adamant supporter of a safe and sound credit union system and a strong share insurance fund. Truliant also is adamant in its belief that credit unions engaging in riskier activities and/or high concentrations of certain activities should maintain a net worth level commensurate with the risks. That being said, Truliant believes that NCUA's proposed risk-based capital (RBC) rule goes too far, offers a solution to a problem that does not exist or has already been adequately addressed, and would result in making credit unions less competitive rather than stronger.

The proposed rule states, "the … rule is intended to help credit unions better absorb losses and establish a safer, more resilient, and more stable credit union system. The improved resilience will enhance credit unions' ability to function during periods of financial stress and reduce risks to the NCUSIF." Truliant believes the proposed rule to be an overreaction to the financial crisis of recent years. Although there were credit unions ill prepared for the crisis and caused losses to the NCUSIF, as an industry, credits unions have bounced back from the crisis quickly due to well managed risk taking and being more than adequately capitalized going into the crisis. At 12/31/07, federally insured credit unions in aggregate had a net worth ratio of 11.44%. By 12/31/09 the ratio fell to 9.91%. The decline was obviously due in part to losses in credit unions' loan portfolios, however, other significant contributing factors were strong asset growth (over 8% in 2008 and 2009) and costs incurred by credit unions related to corporate credit union failures and write downs. As of 12/31/13, the aggregate net worth ratio of federally insured credit unions was back up to 10.78%. If adjusted for corporate credit union stabilization assessments and corporate capital write downs which were not the direct result of the actions of individual credit unions, the industry net worth ratio would be at or around 11% again. Truliant believes this to be evidence of a very resilient credit union industry. How much more resilient do credit unions need to be and at what cost to competitiveness?

One of the greatest challenges to the board and management of every credit union is to strike the appropriate balance between accumulating and maintaining net worth and returning benefits to member-owners. Obviously maintaining too little net worth given a credit union's risk does not properly serve member-owners. On the other hand, maintaining too much net worth relative to risk is a disservice to member-owners in the form of less competitive pricing, outdated delivery systems, etc. Credit union management must be skillful enough to assess risks and strike the proper balance between net worth and service to member-owners. Truliant believes the proposed risk-based net worth rule to be analogous to a credit union accumulating and maintaining too much net worth to the detriment of its member-owners. The proposed rule is intended to provide more insulation for the NCUSIF which Truliant believes is not necessary. Current regulation provides NCUA with more than enough tools and authority to assess risk levels in credit unions and appropriately insulate the NCUSIF from inordinate losses.

Further, Truliant believes the proposed RBC requirements are too stringent and are unnecessary considering how NCUA has increased credit union risk management/mitigation standards in a number of areas such as:

- Interest rate risk management
- Liquidity and contingency funding
- Corporate credit union regulation
- Appraisal guidelines
- Use of credit ratings
- Loan participations
- Credit union service organizations
- Derivatives

Assuming that credit unions take appropriate actions to meet these higher standards and that NCUA monitors and assesses the risk management/mitigation actions taken, the proposed RBC requirements certainly appear to be overkill.

Risk-weight category 1 (0% R-W) includes "U.S. Government obligations directly and unconditionally guaranteed by the full faith and credit of the U.S. Government". The 0% risk weight implies no credit risk which is generally understood, however, the R-W also implies no interest rate risk which is not accurate. Is NCUA saying that the lack of credit risk in these investments is an acceptable tradeoff for the interest rate risk?

Risk-weight category 1 appears that it would include mortgage-backed securities including CMOs issued by GNMA; however that would seem to be inconsistent with NCUA's interest rate risk guidance to credit unions and examination actions. This area needs to be clarified. Does risk-weight category 1 include GNMA securities? Does it include SBA loan pools?

Federal agency securities are placed in risk-weight categories 2, 3, 4, 7, and 8 with R-W's ranging from 20% to 200%. These securities have only slightly more credit risk than U.S. Government obligation (R-W category 1 with 0% R-W) and essentially the same interest rate risk. The RBC requirement proposed for federal agency securities makes an unreasonable and punitive distinction between agency investments and Treasury investments. These risk weights could cause credit unions to accept lower investment yields from Treasury investments or shorter duration investments which would eventually result in less income and less net worth.

A risk weight of up to 200% for federal agency securities obviously is an attempt by NCUA to address a potential interest rate risk threat. Truliant would argue that historically more losses in credit unions, and certainly during the recent financial crisis, were the result of credit risk than interest rate risk. Yet a risk weight of 100% is proposed for delinquent first mortgage loans and 150% for delinquent consumer loans. This constitutes an unreasonable and illogical bias against agency securities.

Would it make more sense to set RBC requirements on investments based on concentration level rather than the issuer? Concentration levels are certainly being addressed in mortgage loans and business loans.

Fortunately Truliant has a fairly high loan-to-assets ratio; however, some credit unions with low loan-to-assets ratios depend heavily on returns from their investment portfolio. The proposed RBC requirements for non-Treasury investments would make such credit unions less competitive compared to banks having a 20% risk weighting factor. It should be noted that credit unions with large investment portfolios as a percent of assets can manage that portfolio with less costs than managing a loan portfolio of the same size.

The RBC proposal makes no distinction between bullet, callable and MBS securities. Obviously the structure of the security is directly related to the risk inherent in the security. NCUA should consider lower RBC requirements for securities with less complex structures.

The proposed requirement of higher capital for higher concentrations in certain assets (real estate loans, MBLs) makes sense; however, the proposed concentration thresholds are too low creating a competitive disadvantage compared to banks.

The proposed requirement of higher capital for higher concentrations in long-term assets (real estate loans, MBLs) make no distinction for variable rate and adjustable rate loans compared to fixed rate loans. Also, the proposal allows no distinction for loans with a low, less risky, loan-tovalue (LTV). Nor is consideration given to the lower risk of a commercial loan that is well secured by highly marketable real estate.

Corporate credit union perpetual capital is placed in risk-weight category 8 with a proposed risk weight of 200%. This is excessive considering:

- The corporate credit unions with the riskiest assets are gone
- NCUA has put regulations in place requiring higher capital in corporate credit unions while also limiting the interest rate risk that corporate credit unions can take
- NCUA regularly examines corporate credit unions which should mitigate much of the risk

It is not clear why an investment in a CUSO (R-W of 250%) is considered by NCUA to be considerably more risky than a loan to a CUSO (R-W of 100%). CUSOs offer an opportunity to credit unions to collaborate in ways that reduces costs and/or provides income. The proposed 250% R-W on CUSO investments could cause credit unions to turn to third party vendors outside of the credit union movement, possibly at higher costs and without any additional capital requirement.

Risk-weight category 10 is uncalled for and should be dropped from consideration. A credit union's lack of understanding of an investment is not prudent but does not by definition make it a high risk investment. The proposal requires a marginal capital requirement of 131.25% (1250% x 10.50%) of the investment amount to meet the "well Capitalized" standard. Why reserve for a loss that exceeds 100% of the investment amount? A credit union investing in a security that it does not understand is an issue for the examination process and does not belong in the RBC requirements.

The proposed RBC rule would give NCUA the ability to "require a higher minimum risk-based capital ratio for an individual credit union in any case where the circumstances…indicate that a higher minimum risk-based capital requirement is appropriate." Truliant has great concern over this subjective power being given to NCUA especially in addition to RBC requirements and risk weights already included in the proposal. NCUA examiners already have the authority to subjectively reduce CAMEL scores. Prompt Corrective Action already gives NCUA the power to impose discretionary actions on credit unions in addition to the mandatory actions spelled out in current regulation. Credit unions do not need to be encumbered by additional subjective regulatory requirements and actions on top of current regulation and any formula-driven RBC requirements that may be enacted from this proposed rule.

Truliant's commitment to a safe and sound credit union system and a strong share insurance fund is unwavering. However, the current regulatory framework provides more than adequate tools for safety and soundness supervision and the proposed rule on risk-based capital goes far beyond what is needed to maintain the credit union system and a strong share insurance fund. At the end of the day, maintaining more capital than is necessary will work against Truliant achieving its mission of improving the lives of its member-owners.

We appreciate the efforts made by NCUA thus far in the rulemaking process and hope that the comments provided from Truliant and other credit unions will further enhance the process. Please call me at (336) 293-2001 if you have any questions.

Sincerely,

Marcus Schaefer

Marcus B. Schaefer
President/CEO
Truliant Federal Credit Union