Transportation
Federal Credit Union

May 23, 2014

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

Re: Comments on Proposed Rule: Prompt Corrective Action – Risk-Based Capital

Dear Mr. Poliquin:

I am writing on behalf of Transportation Federal Credit Union, which serves 19,000 members, primarily employees of the US Department of Transportation and their families. We appreciate the opportunity to comment on NCUA's proposed rule on Prompt Corrective Action – Risk-Based Capital (RBC).

We support the concept of RBC but believe that, as proposed, the rule is flawed. Instead of strengthening the credit union system, the proposed rule would tend to inhibit credit unions' ability to grow and serve their members' needs, such as for real estate and business loans, and to weaken the ability of individual credit union's boards and management to plan and execute strategies best suited to meet the needs of their members. Our concerns include:

Proposed Risk Weights

The risk weights proposed appear to be arbitrary and simplistic in some cases, and disadvantageous compared to treatment of comparable assets for other regulated financial institutions. For example, Cash on Deposit and Cash Equivalents carry a 20% risk weight. Transportation FCU uses the Federal Reserve as its primary depository: we believe the risk weight should be 0% for such funds. Similarly, the weights assigned for real estate and business loans are in some cases significantly higher than for banks, without regard for underwriting standards and the quality of our portfolios.

We note that, while banks do not have risk weights above 100%, NCUA is proposing levels as high as 200% for member business loans and perpetual capital investments in corporate credit unions, and 250% for investments in CUSOs and mortgage servicing assets. NCUA has an established body of regulations governing such credit union investments. Imposing such high risk weightings on top of existing restrictions seems unnecessary and punitive.

Credit Union Service Organization Investments

Many credit unions, including Transportation FCU, have successfully used CUSOs to meet business needs – often by combining resources with other credit unions to realize greater efficiencies and cost savings in meeting member needs. CUSOs have become valuable tools for credit unions of all sizes seeking to make the most of their resources to meet member needs in an increasingly complex operational environment. We are concerned that this proposal could have a negative impact on CUSOs and the credit unions and members that they serve.

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NCUSIF Deposit
The removal of the National Credit Union Share Insurance Fund deposit from the RBC calculation effectively reduces the amount of capital, and seems to indicate that NCUA considers the deposit to be of no value. This provision of the proposed rule should be reconsidered to recognize the value of the NCUSIF.

Comment and Implementation Dates
The comment period for this proposal expires on May 28, 2014, but Chairman Matz has indicated that she would hear comments on the proposal during her upcoming "Listening Sessions." We believe that the comment period should be extended or other means found to ensure that any such comments are made part of the record for this proposed regulation.

In whatever final form it takes, the RBC is likely to have a significant impact on many credit unions, requiring significant balance sheet or operational restructuring in some cases. Credit unions do not have the same flexibility as other financial institutions to raise supplemental capital to improve risk-based capital ratios. Given the profound potential impact of this rule we believe that an 18 month implementation period is too short: 36 months would be a more reasonable timeframe.

Conclusion
Transportation Federal Credit Union recognizes the need for capital to any financial institution's ongoing health, and we are proud of how we – like most credit unions – were able to navigate the financial turbulence of recent years through prudent management of our capital and resources. However, we believe that the proposed Prompt Corrective Action – Risk-Based Capital rule is in need of serious revision if it is to meet its stated objectives, and to avoid having a negative impact on individual credit unions and their ability to operate effectively and manage their risks while serving their members.

Thanks you for the opportunity to comment on this important proposal. Please feel free to contact me at jarvai@transfcu.org or 202-385-6003 if you have any questions regarding these comments.

Respectfully,

Jeffrey S Arvai
President/CEO