May 23, 2014

THE CREDIT UNION
Member Strong

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

Re: Comment letter regarding proposed Risk-Based Capital Regulations

Dear Mr. Poliquin:

I appreciate the opportunity to provide feedback regarding the proposed Risk-Based Capital regulations. As the CFO of a $1.4 billion credit union with an 80 year history of serving members in Northeast Oklahoma, I am extremely concerned with much of the content in the proposed rule. The fact that TTCU The Credit Union maintains a very high level of capital does not lessen my concerns. Below is a summary of several of my most pressing issues.

Inconsistent handling of interest rate risk

The rule as written does a very poor job of addressing interest rate risk. Specifically, the weighted average life of assets should not be considered in the calculation. Not considering the funding side of the balance sheet makes it impossible for any measure to capture a credit union's interest rate risk. For example, a credit union that is liability sensitive could *decrease* risk by adding a fixed rate long-term investment to the balance sheet, but would be punished for this investment under the proposed rule. To add further confusion, the NCUA has assigned a 0% risk weighting to all Treasury bonds regardless of maturity. Therefore, a 4 year GO Municipal Bond will have a risk weighting of 75%, while a long-term US Treasury would have a risk weighting of 0%. This makes no sense. Clearly trying to capture credit risk, interest rate risk, concentration risk, liquidity risk, operational risk, and market risk in a single metric is an impossible task. The scope of risks that this rule is trying to address must be reduced. Eliminating the weighted average life of assets from the calculation would be a first step in providing more clarity to the calculation.

Misguided exclusions to the numerator

The deductions from the capital numerator that the NCUA is proposing are unfair and will have negative unintended consequences. First, the NCUSIF deposit should not be deducted from capital in the calculation. The assumption that this asset has no insulating value is flawed. Second, Goodwill should not be removed from the capital calculation. This restriction will result in fewer mergers where a healthy credit union acquires a struggling credit union. The rule as written will already place difficult demands on a healthy credit union. TTCU acquired a failing credit union last fall. If the proposed rule were in effect, we would have taken a more critical look at the transaction given the acquired credit union's weak balance sheet. If you add the burden of excluding goodwill, it will have a discouraging impact on future mergers and will increase the likelihood that there will be more credit unions that fail. Clearly this is not the result NCUA is looking to achieve. Finally, it does not make sense to reduce the allowance allocation that can be included as capital. This is especially true when considering the new “life of loan” calculations that are expected to be coming soon. If the allocation is reduced from 1.5% it will likely lead to double counting of losses during weak economic cycles. Many credit unions will be forced to limit lending to underserved members in order to avoid negative consequences. Please consider modifying these proposed adjustments to the capital numerator.

The proposed enforcement of Individual Minimum Capital Requirements (IMCR)

The NCUA seems to be acknowledging that the rule as written is inadequate with the proposal of IMCR. This addition to the rule introduces the possibility that a credit union could be deemed “Well-Capitalized” by both the standard capital measure and the new RBC measure, but still be classified as deficient based on the independent judgment of an examiner. The IMCR should not be a part of this rule. This would open up the possibility of arbitrary actions by examiners that would lead to unproductive confusion and anger from impacted credit unions. There are other more effective tools that the NCUA can use to address specific concerns instead of adjusting a credit union’s capital requirements.

Conclusion

TTCU’s mission is to be our members’ *trusted source for financial solutions*. If we are required to follow arbitrary restrictions on how we manage our balance sheet, it will handcuff our ability to fulfill this mission. The proposed rule should either be rescinded or significantly modified. The suggestion that the rule will have a “minimal” impact on the credit union industry is not realistic. The current version of the RBC regulation will have a significant impact on all credit unions. Optimal balance sheet management decisions may be modified due to the unanticipated impact on the RBC ratio. There could be fewer loans available to qualified members including real estate loans, member business loans, or loans to members with less established credit. Merger activity may slow down as healthy credit unions are forced to evaluate the impact that the acquired credit union’s balance sheet may have to the combined RBC ratio. The rule as written will restrict the credit union industry’s ability to facilitate healthy asset growth as credit unions work to preserve a higher RBC value.

The credit union industry has collectively withstood the financial turmoil over the last few years and has emerged with a high level of financial strength. The proposed RBC regulation will not add to the financial stability of credit unions. The negative consequences of the proposed rule will outweigh the positive as our industry works to serve our membership base and provide critical financial services. Please consider making significant revisions to the rule, to minimize the scope of the regulations, and provide consistency to the calculations.

Sincerely,

Shelby A Beil
VP/Chief Financial Officer
TTCU The Credit Union