Suncoast Credit Union

May 16, 2014

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

Re: Comments on Proposed Rule: PCA – Risk Based Capital

Dear Mr. Poliquin:

Suncoast Credit Union ("Suncoast") appreciates the opportunity to comment on the National Credit Union Administration ("NCUA") Board's proposal to revise and replace the current prompt corrective action ("PCA") rules. We are in agreement that modernization of the PCA rules would benefit credit unions by providing for future opportunity and competitive equilibrium within the financial services industry, as well as strengthen the overall credit union movement.

In general we agree that PCA modernization would benefit credit unions. However, we oppose the proposed rule that adds regulation without adding value and creates unintended consequences that will have a negative impact on consumers and small businesses.

The "Great Recession" that has occurred over the past 5 years has been the most financially challenging time in credit union history. This extraordinary event provides the ability to apply the proposed Risk Based Capital rule in a look-back analysis to determine whether the purpose of the proposed rule is accomplished. Suncoast Credit Union's geographic footprint includes the epicenter of the "Great Recession" and therefore provides an excellent credit union to base a look-back case study applying the proposed rule.

A Case Study: Suncoast Credit Union

Suncoast Credit Union is a $5.7 billion credit union headquartered in Tampa, Florida serving over 580,000 members primarily located on the west coast of Florida. Suncoast was severely impacted by the "Great Recession" and suffered significant losses over a three year time span. That severe economic downturn forced our net worth ratio to fall below 6% for four consecutive quarters and forced us into the PCA requirements for an "undercapitalized" credit union. Throughout this extraordinary event, Suncoast was never classified as a "complex" credit union according to the NCUA's definition, due to Suncoast's Risk Based Net Worth calculation never exceeding 6% under the current PCA rules.

As shown in the following table, Suncoast's net worth ratio peaked in 2006 at 8.78% and just two years later the ratio fell below the well capitalized threshold of 7% by the end of 2008. It took us 4 years to get back above 7%, and today we are above 8.5%. During these past 5 years, the NCUA worked very closely with us by approving our Net Worth Restoration Plan, and allowing us to take a measured and controlled strategic approach by approving our quarterly waiver of the required earnings transfer until we had the ability to make those transfers. Under the existing PCA rules, we successfully followed the requirements and have recovered.

Suncoast Credit Union's Historical Performance

Year Ended	Net Worth Ratio	Proposed Risk Based Capital Ratio
December 2005	8.46%	12.92%
December 2006	8.78%	13.32%
December 2007	8.14%	12.48%
December 2008	**6.86%**	**10.30%**
December 2009	6.05%	8.90%
December 2010	5.96%	8.68%
December 2011	6.50%	9.56%
December 2012	**7.52%**	**11.34%**
December 2013	8.47%	13.09%

While Suncoast has suffered more than most credit unions, we are not an isolated case. Many other credit unions suffered losses and developed and implemented similar strategies in response to the economic environment. Under the existing PCA rules, the natural person credit union industry survived the severe recession with a well-funded share insurance fund and the industry has recovered.

In the proposal, the primary reason for issuing the proposed risk based capital rule is because a risk-weighting system is "more indicative of the potential risks within credit unions" which will "help credit unions better absorb losses and establish a safer, more resilient, and more stable credit union system". In our case study above, it is clear that the proposed rule would not have accomplished this stated purpose. In the same exact period that Suncoast's Net Worth Ratio fell below 7%, the Proposed Risk Based Capital Ratio fell below 10.5%. Similarly, in the same exact period that Suncoast's Net Worth Ratio exceeded 7%, the Proposed Risk Based Capital Ratio exceeded 10.5%.

In applying the Risk Based Capital ratio retrospectively, over the most financially challenging time in credit union history, the proposed ratio did not prove to be an earlier warning indicator than the existing PCA rules. In fact, it only adds another regulatory layer that does not appear to add value in the purpose of establishing a safer credit union system.

Proposed Rule Concerns

We have numerous concerns about the PCA Risk Based Capital proposed rule. The proposal as it is written creates unintended consequences impacting our credit union member-owners and the communities we live in. As such, we cannot support this proposal and have identified only the more critical concerns in the following paragraphs.

Clearly, the proposal adds an additional regulatory layer to the already established PCA capital classifications. The proposal also provides the ability of the NCUA to set the Individual Minimum Capital Requirement (IMCR) at any level, regardless of the levels set in the proposed regulation. Furthermore, there is no independent, objective appeals process provided in the proposal. The authority of a regulator to subjectively set an individual capital requirement without an independent appeals process creates an unnecessary risk for credit unions.

The proposal introduces risk weight categories including graduated concentration-based weights which, at the higher levels, would be considerably higher than those applied under the Basel system for banks. We are concerned this portion of the proposal could unnecessarily hinder the communities we serve by limiting the lending to homeowners and small businesses. Moreover, creating a disincentive for credit unions to grow mortgage and business loans reduces the availability of lower cost options that help control market rates for the benefit of all consumers and small businesses.

Additionally, the concentration based weights on the asset categories are applied in a 'one size fits all' manner. Risk weights on first mortgage real estate loans are only applied by volume, with no differentiation between the completely different risk profiles of variable versus fixed rate products. Similarly, risk weights on investments are applied based on weighted average life, with no differentiation for the riskiness of the structure. Finally, all CUSO Investments are lumped into an egregiously high risk weighted category, regardless of the actual risk of business line. We would like to see the Board provide justification and more clarity as to why the proposed risk weights differ from those applied to other community financial institutions, as well as allow more time than the proposal's allotted 18 months to come into compliance.

The entire focus of the risk weighting is on the assets of the credit union and does not account for the liabilities used for risk hedging purposes. For example, Suncoast uses Federal Home Loan Bank borrowings to hedge the interest rate risk of holding mortgage loans. While this reduces the risk of those assets, that benefit is not taken into consideration in this proposal.

Because of credit unions' limited avenues for raising capital, it is likely this proposal would force us to charge higher lending and financial services fees, reduce dividend payments to members, and deter new depositors. In consideration of credit unions' unique capital structure, the proposal was silent about supplemental capital as a solution to alleviate the burden of raising capital. As a next step, we urge the NCUA to stop and study the economic impact and consequences of reduced liquidity and financing for families and small businesses.

Suncoast does not support this proposal in its present form and urges the NCUA to consider starting over by working directly with credit unions to develop a proposal that would unite the NCUA and credit unions in achieving the stated purpose of "establishing a safer, more resilient, and more stable credit union system".

We appreciate the fact that NCUA is addressing the modernization of the existing PCA rules. However, we have real concern that this proposal would add another regulatory layer without accomplishing the overall objective of creating a more stable credit union system. Additionally, the proposal creates serious unintended consequences on the future of the credit union industry. We hope the points we raise generate questions, and would welcome the opportunity to assist the NCUA in the development of a new proposal that would strengthen our industry.

Sincerely,

Julie Renderos, CPA
Executive Vice President/CFO