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FirstFlorida
CREDIT UNION

May 20, 2014

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

Re: Risk Based Capital Proposal

Dear Mr. Poliquin,

I would like to thank you for the opportunity to comment on the new proposed Risk Based Capital that the NCUA board is considering implementing for our industry. As a quick introduction, I am the CEO of First Florida Credit Union in Jacksonville, Florida serving members that are primarily employees of the State of Florida and CSX Transportation. We are currently just over $ 400 million in assets and exceed 13% in capital. We not only serve SEG groups but also communities around the State of Florida.

I have several concerns regarding the new proposal and trying to establish a "one size fits all" approach to a calculation that while on the surface may look mundane, but will have substantial impact on the future of the credit union industry. As we know, there is no simple solution to a complex situation. In the case of the stability of our industry as it relates to "Capital", I would characterize the emphasis as more of a focus area than as a problem. It cannot be debated that the credit union industry has emerged from one of the most dramatic and challenging economic times with very little impact to our capital level as an industry. Does" Risk Based Capital" calculation have value and could be beneficial, yes. In the format that NCUA has initially delivered the calculation, it would put the burden of raising capital directly on the shoulders of our current members and put credit unions at an uncompetitive advantage over other financial institutions.

My specific concerns and some thoughts are listed below:

1. Why now for Risk Based Capital? Is this a knee –jerk reaction to other agencies implementing similar regulation? I would ask to look at overall capital ratios of our industry and look at the share insurance fund. The hardest hit in the share insurance fund came from corporate credit unions and specifically US Central. NCUA was the regulator of those institutions. Adding more capital would not have changed the outcome of the economic impact of the last six years with corporate or member owned credit unions. The solution to solving the risk issue for NCUA is not putting more money into our coffers, but to ensure the proper management of risk is in place.

2. NCUA's weightings for mortgages, member business loans, CUSO's are not directly related to a calculated risk, rather than if you do one activity at a certain level than you have a certain level of risk. In simple terms, that is not a practical way of assessing risk. If a credit union owns a CUSO with other credit unions to purchase toilet paper at a greater discount, NCUA would risk rate that CUSO same as any other CUSO's. Just owning a CUSO does not increase an organization risk for loss of capital. In many cases, those CUSO's are in place to help preserve capital with greater earnings or reduction of costs due to the shared expenses. NCUA's approach is not effective in determining risk other than taking a broad stroke approach that if you do a certain activity there is more risk. That may be true, but equally may be false. Either way, it is not accurate in determining if activities may be risker and to what extent.
3. Similar to throwing all mortgages and member business loans into a risk bucket, NCUA is taking a similar tactic to investments. I could go into great details about the different average life of securities or other components of matching up interest rate risk to other maturities, but I'm sure other contributors have and will be doing so. My point is that NCUA should consider a more detailed breakdown of securities within a portfolio and risk rate accordingly. Once again, a flawed approach with create more controversy in the future as examiners are working with credit union executives during the exam process.
4. I am also not sure how a "Risk Based Capital" calculation can have subjective judgment by an examiner or NCUA. If an examiner or NCUA deem that the calculation does not accurate match their subjective view of what level the credit union should be at, they can change the rating. In itself, that is a reflection that the calculation is not accurate and NCUA has determined that they need to have flexibility on determining the risk level.
5. Setting a specific risk level based on the amount of mortgaged, MBL or even delinquencies without taking into consideration other factors such as a credit unions history of doing those very same activities or how they manage delinquency verses charge off's. Credit unions with long history with successful member business lending or montage lending programs will be penalized for those successes. Ultimately if additional capital will be needed, those credit unions will have to increase the cost of doing business with the credit union and the members will be paying for the cost of increasing capital.
6. Finally, the only way of raising capital for a credit union is through net income. If PCA is needed, the members have to pay for that. It is unfair to put the burden of the cost of raising additional capital in a short period of time on the members.

These are only a few of my concerns and would be glad to spend more time documenting them, however, I think NCUA board will get the idea that additional work needs to be done for a new "Risk Based Capital" calculation. This will have negative impact to our industry and will reduce a credit union's ability to serve its members and new members. Our share insurance fund is well funded and credit unions have paid the price to ensure the high level of funding. We have demonstrated, as an industry that we are safe and sound. There will always be those financial institutions that push the envelope or even fail. As a regulator, NCUA currently has the empowerment to manage those risks through their annual exams, DOR's, LUA's and other administrative functions. Assigning a new calculation that is anything but accurate in assessing risk will not be beneficial to the credit union, to the industry or to our members.

I ask the NCUA board to take more time to assess what is the "right" approach to risk based capital. There is not a reason for urgency or a crisis that forces quick decisions.

Thank you for your time and consideration.

Brent E Lister

Brent E Lister
President / CEO
First Florida Credit Union

CC: Bill Nelson, U.S. Senator
Marco Rubio, U.S. Senator
Corrine Brown, U.S. Representative
Ted Yoho, U.S. Representative
Ron Desantis, U.S. Representative
Ander Crenshaw, U.S. Representative