ORNL Federal Credit Union

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May 27, 2014

The Honorable Debbie Matz, Chairman
The Honorable Michael Fryzel, Board Member
The Honorable Richard Metsger, Board Member
National Credit Union Administration
1775 Duke Street
Alexandria VA, 22314

RE: NCUA Risk Based Capital Rule

Dear Chairman Matz, Board Member Fryzel, and Board Member Metsger:

We are writing on behalf of ORNL Federal Credit Union (ORNL FCU), which serves the 16 counties of Central East Tennessee. The Credit Union currently serves over 160,000 Members and has $1.5 Billion in assets. ORNL FCU appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action – Risk Based Capital.

ORNL FCU continues to look for ways to deepen the relationships with our members and to provide a broad range of services. One of the ways we have achieved this goal is through the development of a wholly owned CUSO, CU Community, LLC. This CUSO has enabled ORNL FCU to sell longer-term first mortgages while maintaining the servicing rights on those loans. That strategy has enabled ORNL FCU to continue generating first mortgage loans to members without adding additional interest rate risk to the balance sheet, as well as generating income from the rights to service those loans. This CUSO has also enabled the credit union to generate income while providing other services to our members. ORNL FCU has strategic plans to continue to strengthen the products and service offerings from this CUSO to better enhance member value and service.

We are aware that NCUA intends to apply the CUSO capital rating to both the cash investment made by ORNL FCU *and upon the appreciated value in the CUSO.* We believe that allocating capital on the appreciated value of the investment discourages safe and sound management of a CUSO and is counterproductive to a risk-based approach.

We also question why the investment in a CUSO is proposed to have a risk metric of 250% - an amount that seems excessive when compared to other risk weightings. For example, delinquent consumer loans over sixty days as well as delinquent unsecured credit card debt are risk rated at 150% and delinquent first mortgages are risk rated at 100%. This, too, seems to be counterproductive to a risk-based approach.

ORNL FCU currently has a very strong capital position and would be classified as Well-Capitalized under the proposed rule. The Credit Union currently has a Net Worth Ratio of 11.19% (with a risk RBNW requirement of 5.24% under the current regulation). Under the proposed rule, the Risk-Based Capital Ratio would be 15.63%, well above the 10.5% minimum to be classified as Well-Capitalized; however, we believe that the proposal unfairly classifies the risks on the balance sheet. Specifically, we are concerned with the following categories:

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- **Member Business Lending (MBL) and Mortgage Loans**
  It seems punitive to give higher risk weights to MBL and Mortgage Loans as the concentration increases. Additionally, MBL loans have a proposed assigned risk-weighting of 1.00 for the first 15% of assets, and then increases as the concentration increases. Again, it seems punitive to require the Credit Union to maintain capital in excess of the dollar amount of the MBL loans. The excess capital required to cover the first mortgage loans would be $10,071,847. The Credit Union has already established concentration limits to mitigate against potentially catastrophic losses and to enhance the Enterprise Risk Management process.

- **Investments**
  Investments that Federally Insured Credit Unions are permitted to own are those that have been classified as Low-Risk by the NCUA, and should all be treated the same, regardless of the maturity or duration. The increased capital requirements for ORNL FCU for this category alone would equate to $59,954,137 as of 3/31/2014.

- **Investments in Credit Unions Service Organizations (CUSOs)**
  CUSOs provide a valuable service to credit unions in general and to ORNL FCU specifically. CUSOs provide lower cost access to services needed by credit unions, and spread the risk associated with those businesses across all member owners. Since federally insured credit unions may only invest less than 1% of assets in CUSOs, a credit union could lose all the CUSO investments and the loss would not be material, yet the upside potential could be very significant. This component results in an allocation of $19,801,665 of increased capital requirements for the Credit Union.

- **Mortgage Servicing Rights**
  Weighting MSRs at 250% is penalizing credit unions for managing both interest rate risk and member relationships. If properly accounted for, MSRs have minimal risk. This component results in $11,751,168 of capital requirements for ORNL FCU.

- **Summary thoughts and observations**
  - ORNL FCU would remain well-capitalized in the proposed system, but the capital cushion would shrink by a total of $9,241,780 with implementation of the proposed rule.
  - ORNL FCU currently has a cushion of 428 basis points on total assets, but under the proposed rule, the cushion over the well-capitalized designation would decline 367 basis points on total assets, or a 62 basis point decrease in the capital cushion.
  - As a point of reference, ORNL FCU generated a 1.02% ROA in 2013.
  - The proposed timeline of 12-18 months should be lengthened to allow those credit unions who will be adversely affected by the proposed changes to adequately adjust their balance sheets accordingly.

Thank you for the opportunity to comment on this proposed rule and for considering our views on Risk Based Capital requirements.

Respectfully submitted,

Chris Johnson
President and CEO
ORNL Federal Credit Union

Marcy Catron /dj

Marcy Catron
Chair, Board of Directors
ORNL Federal Credit Union

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