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Via Email: regcomments@ncua.gov
File Reference No. 2012-260

Re: RIN 3133-AD77 Prompt Corrective Action – Risk-Based Capital

Mr. Gerard Poliquin
Secretary of the Board
NCUA

I believe that the NCUA's proposed rule for changing how credit unions comply with their statutory reserve requirements is a positive step in the right direction. Every credit union has a variety of risks inherent within their balance sheet, the greatest of which is Credit Risk. This Credit Risk has resulted in the failure of most if not all of the Credit Union failures. Therefore, credit risk should be the focus to prevent this type of failure in the future. Unfortunately, the proposed risk-based capital (RBC) rules fall short in several areas.

Below is a summary of my response to each of the 10 Categories in Table 6 - Risk-Weight Categories:

Category 1 – 0% - Agree with classifications.

Category 2 – 20% - Agree with classifications, with the following exceptions:

- Include all investments guaranteed by federal government-sponsored entities (GSEs), like Federal Home Loan Bank, Fannie Mae and Freddie Mac. These are extremely low risk, have had no history of losses and compare well to the other assets within this group. I believe that the higher weighting for longer term GSE investments is not necessary since interest rate risk management is already covered by other regulations and the interest rate risk may be partially or completely hedged on the balance sheet. This would also be consistent with allowing longer-term US Treasuries in Category 1 (0% risk weight).

Category 3 – 50% - Agree with classifications, except remove, "the total amount of investments with a weighted-average life of greater than one year, but less than or equal to three years", based on comment under Category 2. I would also add a category for US Public entities like States and Municipalities.

Category 4 – 75% - Agree with classifications, except remove, "the total amount of investments with a weighted-average life of greater than three years, but less than or equal to five years", based on comment under Category 2.

Category 5 – 100% - Agree with classifications.

Category 6 – 125% - Agree with classifications.

Category 7 – 150% - Agree with classifications, with the following exceptions:

- Remove, “the total amount of investments with a weighted-average life of greater than five years, but less than or equal to ten years”, based on comment under Category 2.

- Add complex asset-backed investments (private label) that have inherent credit risk exposure. These investments have had very high historical losses in the past and require experience and substantial due diligence at time of purchase and throughout the life of the investment.

Category 8 – 200% - Agree with classifications, except remove, “the total amount of investments with a weighted-average life of greater than 10 years”, based on comment under Category 2.

Category 9 – 250% - Agree with classifications, but would recommend considering CUSO investments at a lower percentage as these investments are a good strategic partner for many credit unions that add good returns at a moderate level of risk and there are already regulatory limits in place for CUSOs.

Category 10 – 1,250% - I agree that complex asset-backed investments (private label) that have inherent credit risk exposure should have some additional due diligence requirements. However, I believe that this penalty percentage is too large for this asset group. Generally Accepted Accounting Principles already require mark-to-market accounting for any of these investments that are impaired. Therefore, I believe a 250% weighting would be much more appropriate. I also believe the rule needs to make it clear that this does not include any asset-backed investments that are guaranteed by the US Government of any Federal Government Agency.

The only other comment is to question why raise the required “Well Capitalized” level from the current PCA required 7% to 10.5%. That represents a 50% increase in that ratio and will inhibit growth of many credit unions. Why wouldn’t you use a ratio in line with the FDIC at 10% Risk Based Capital – Well Capitalized definition? This would give us a better level playing field with the bankers.

Sincerely,

David Pickney, CPA
(license to practice in Arkansas)
Executive Vice President and CFO
Texas Trust Credit Union

CC:
Credit Union National Association
Cornerstone Credit Union League

Senator Ted Cruz
Senator John Cornyn
Rep. Joe L. Barton