CREDIT UNIONS
TENNESSEE
Credit Union League

May 27, 2014

Mr. 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:

The Tennessee Credit Union League (TCUL) represents the credit unions of Tennessee and over 1.9 million credit union members. TCUL is appreciative of the opportunity afforded by the National Credit Union Administration (NCUA) to comment on the proposed Risk Based Capital rule and the impact this will have on the credit unions of Tennessee.

The proposed rule places more rigid capital standards on credit unions that NCUA defines as complex. The definition of a complex credit union, as defined in the Federal Credit Union Act, is based on the assets and liabilities of credit union portfolios and directs NCUA to develop a risk based capital calculation based on these parameters, not strictly on the asset size of federally insured credit unions.

A credit union's measure of complexity should not be solely tied to asset size. Strategic decisions and credit union member needs are the drivers behind credit union service menus that will broaden the base of financial service offerings making a credit union more complex, not the growth of assets alone.

Therefore, we strongly recommend that you reconsider the actual numbers attached to the new risk weight categories. The 10.5% level proposed to be defined as "well capitalized" exceeds the corresponding number for banks under the widely accepted Basel III standards, and seems unwarranted given the relative risk profiles and complexities of the institutions involved. To assign credit unions a higher requirement appears to be a punitive barrier, rather than a prudent cushion that would appropriately reflect elevated risks. We encourage you to reduce the requirement for definition, proposed at 10.5%, to a number that is more suited to the realities of actual credit union balance sheet risk. We also ask that you lower the other category numbers in the proposal accordingly.

More specifically, we feel that this is not a good time to propose such a sweeping overhaul of capital standards for credit unions. While many credit unions are profitable there are other pressures they are currently facing that could have a negative result for their continued growth and profitability.

Among those are:

• Increased regulatory demands • New wage rules • Increased health insurance

If NCUA must enact new capital standards, credit unions should be allowed to make adjustments to the their operations over an extended period of 3 or 4 years to help them better prepare for the increased requirement. Banks will have up to 9 years to fully implement Basel III; under the current proposal NCUA is giving credit unions 18 months to comply.

Credit unions have moved their "overnight" accounts to the Federal Reserve to help manage risk. By moving these funds from uninsured corporate accounts they have reduced the exposure of these funds exponentially. The proposed rule would apply a 20% risk weighting to these cash on deposit funds. We feel that a more appropriate weighting should be zero-percent.

The proposed rule applies an escalating risk measurement on investments that are greater than three years, but less than or equal to five years increasing to 200 percent for investments with a weighted average life greater than 10 years. Currently, many credit unions invest in mortgage-backed securities through Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA). These securities are guaranteed by the United States Government and should have a lower risk weighting applied.

Additionally, the final rule should look at a credit union's historical performance in the product lines that they offer their members prior to assigning a risk level. Examples include Member Business Loans and mortgage lending. Tennessee credit unions perform extremely well in these areas and have minimal losses based on their ability to manage risk through variable rate instruments and term of loan.

Tennessee credit unions support a well-capitalized credit union system. We feel that the rule as written will cause an undue burden on Tennessee's credit unions and slow credit union growth at a time when citizens need more access to financial services.

I would like to thank NCUA for allowing us to comment on this extremely important proposal.

Sincerely,

Fred E. Robinson

Fred E. Robinson,
President/CEO