TINKER FEDERAL CREDIT UNION

May 27, 2014

To: Mr. Gerard Poliquin
Secretary, NCUA Board
1775 Duke Street
Alexandria, VA 22314-3428

Re: Comments on the NCUA's Proposed Rule: Prompt Corrective Action - Risk-Based Capital

Dear Mr. Poliquin:

Tinker Federal Credit Union (TFCU) is a federally chartered, multiple-common bond credit union in Oklahoma serving more than 290,000 members worldwide through its online channels and 28 branch locations. TFCU appreciates the opportunity to provide comments to the NCUA's proposed rule concerning Prompt Corrective Action (PCA) and Risk-Based Capital (RBC).

While TFCU understands the NCUA has the right to impose RBC requirements, TFCU is concerned that the NCUA does not have the authority to impose *higher* RBC standards on well-capitalized credit unions than are imposed on adequately-capitalized credit unions. Senator D'Amato, the former Senate Banking Committee Chairman who led the development of the current PCA standards, noted in his May 7th comment letter that it was never the intention of Congress to mandate that complex credit unions be subject to risk-based net worth requirements beyond being adequately capitalized for net worth purposes. He questions the NCUA's authority to do so now. According to the Senator, the NCUA was instructed "to construct only a risk-based net worth floor, to take account of situations where the 6% requirement to be adequately capitalized was not sufficient."

<u>Risk Weights for On-Balance Sheet Assets – Section 702.104(c)(2)</u>
In general, many of the new risk weights appear arbitrary and do not accurately reflect actual risk. The revaluation of certain asset weighting could change a credit union's PCA without any justification.

<u>Investments</u> – The proposed risk-weights for debt instruments unconditionally guaranteed by the U.S. Government appear inconsistent with the NCUA's goals. The proposal would lower the risk-weights by moving these instruments from categories with Weighted-Average Life of Investments (WAL) parameters to 0%. Consequently, this could result in a credit union not being penalized for placing all of its investments in 30-year Treasury bonds. A credit union with this level of Interest Rate Risk (IRR) being placed in the 0% risk-weight category contradicts the NCUA's stated intention of considering all material risks (e.g., IRR, credit risk, concentration risk) in its risk-based measurement. As there appears to be no justification for such an inconsistency, TFCU recommends that if any investments have a WAL component, *all* investments should have a WAL component.

In addition, there are differences in risk-weightings that do not appear to promote sound IRR nor credit risk planning and management. For example, a 30-year first mortgage that is not guaranteed by a Government agency would most likely have a 5-10 year WAL with a 50% risk-weight, while an agency Mortgage-Backed Security (MBS) with no effective credit risk and a WAL of 4 years would have a 75% risk-weight, the same as a credit card loan. If the MBS had the same WAL of 5-10 years as the first mortgage, it would have a 150% risk-weight but no credit risk. These applications of the risk-weights appear to do nothing to strengthen the credit union system. TFCU recommends that the NCUA provide justification of its reasoning.

CUSO Investments – The NCUA would set the risk-weight at 250% for investments in CUSOs and 100% for loans to CUSOs. The proposal provides no support for risk-weighting loans to CUSOs as 2.5 times safer than investments in CUSOs. In addition, risk-weighting all CUSO investments at 250% does not provide any ability to differentiate between the different types of CUSOs in which credit unions can invest and which can have drastically different balance sheet and risk structures. TFCU's CUSO investment has been fully recovered and today generates income for TFCU through its alternative investment offerings to TFCU's members. The proposed 250% risk-weight would be unnecessarily high for this particular CUSO. TFCU strongly encourages the NCUA to consider the NACUSO's comprehensive and knowledgeable comments in its letter to NCUA dated March 4, 2014.

Mortgage Servicing Assets – The NCUA has strongly emphasized the need for credit unions to properly manage IRR. Yet the proposal would set the risk-weight for the total value of Mortgage Servicing Assets (MSAs) at 250% due to its concern that MSAs can become impaired when interest rates fall and borrowers refinance or prepay their mortgage loans. However, the sale of long-term fixed-rate loans to the secondary market is one way in which TFCU manages IRR. When interest rates increase, the value of mortgage servicing rights also increases to offset some of the IRR from the balance sheet. TFCU believes 250% is too high considering this IRR benefit and encourages the NCUA to consider setting risk-weights that would incorporate recourse into the equation when determining the risk-weight and set a lower risk-weight if the loans are sold without recourse.

Individual Minimum Capital Requirements – Section 702.105

The proposal would give the NCUA discretion to adjust the required risk-weighted capital on an individual credit union based on subjective factors. In TFCU's view this is likely to prevent a credit union from conducting appropriate long-term capital planning, which is an important part of the planning process. Allowing the NCUA to determine higher capital amounts on a subjective basis would leave credit unions uncertain about what would constitute a well-capitalized credit union as NCUA personnel would have different opinions on the appropriate capital level. TFCU believes all credit unions should have the same capital requirements and calculations. A bright-line test for credit unions is not only preferable but also logical to ensure credit unions are treated equally. In TFCU's opinion, any risk-based capital calculation would consider the unique balance sheet of each credit union. Thus, additional requirements are unnecessary.

Parity with Banks

The NCUA's goal, in part, is to restructure PCA by developing a system in parity with banks. TFCU appreciates that the adoption of Basel III for certain types of banks has put pressure on regulators to strengthen capital requirements for all types of banks, many in which were undercapitalized before the financial crisis due to inadequate capital requirements. TFCU is troubled that the NCUA also feels compelled to increase capital requirements because of these factors, even though credit unions had more than enough capital to weather the financial crisis. Today, credit unions tend to maintain a buffer above what is required to be well-capitalized. Under this proposal, the buffer would be reduced by approximately $7.3 billion. Thus, if credit unions wish to restore the buffer currently enjoyed, credit unions would need to raise an additional $7.3 billion in capital.

Impact on Members
The NCUA's proposal would increase the regulatory burden on all credit unions, regardless of asset size. In addition to the numerous concerns that are noted above, credit unions would absorb the costs associated with implementation and compliance with the new rule in addition to the countless other regulatory burdens that currently hinder a credit union's ability to properly serve its members. The likely result is that many credit unions would be discouraged from making the kinds of loans and investments weighted as high risk at the ultimate disservice to members.

Timeline
The rule comment period is too short and may lead to a final rule that would negatively impact credit unions. In addition, once the proposed rule is approved, the aggressive 18-month implementation period is unnecessarily burdensome. TFCU urges the NCUA to consider extending the implementation period to 36 months.

TFCU respectfully requests that the NCUA fully consider the above comments and revise the plan accordingly. Please feel free to contact TFCU for questions.

Sincerely,

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