April 15, 2015

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

Mr. Poliquin,

Florida Credit Union appreciates the opportunity to comment on the second proposed capital regulation. We would like to also acknowledge the very significant revisions NCUA has made based on the comments it has received.

A major concern that we had with the first draft and this one is the influence the Great Recession has had on what NCUA is proposing. The second draft mentions delinquency and charge off data from the Great Recession. It is important to note that the industry fared well through the recession. In fact, assessments related to non-corporate credit union losses since 2010 amount to 12.42 basis points. Given the severity of this recession, this is a minimal amount. It is a credit to NCUA as a regulator, state regulators, and credit unions in general, in how each did their jobs in the decades prior to the recession. These efforts gave credit unions the balance sheet strength to weather The Great Recession.

It is extremely important that NCUA keep this in mind when assigning risk weights. Florida Credit Union believes that looking at the 20 to 30 years prior to the recession is more important than looking just at the Great Recession. If NCUA puts too much weight on the recession, our industry will have a regulation that renders it uncompetitive in the market place.

It is also important to remember that in the fall of 2008 our financial markets almost ceased to function largely because of a lack of confidence. Liquidity became a very significant problem for all types of economic entities including credit unions. Because of this, the Treasury and Federal Reserve made liquidity available in ways that had never been done before. Liquidity was provided to Money Market Funds, large companies such as GE and AIG, Investment Banks, and of course financial institutions of all types. In fact, the Treasury made a line of credit available to NCUA of many of billions of dollars; that it made available to credit unions through the CLF. While providing liquidity to all parts of our economy was important to avoid a repeat of the Great Depression of the 1920’s, it should not be confused with capital.

Florida Credit Union is also concerned about NCUA's definition of Concentration Risk. Many ALM training materials describe concentration risk as a situation where other risks, such as credit or interest rate risk, are magnified by having large concentration of assets in a class with similar attributes. Without other risks to magnify, concentration risk does not exist. Concentration risk is mentioned throughout the regulation as a justification for heavier risk weightings than the FDIC uses. There is little discussion and no quantification of what the underlying risk actually is and yet heavier weightings are assigned over the FDIC.

Any risk-based capital regulation must have credibility industry-wide, from both the perspective of NCUA and credit unions. One key component of this credibility is that our regulation emulates the work done by other regulators in this country. The system that is being phased in today by banks, Basel III, emulates international banking standards that have been jointly developed by the central banks of the major industrialized countries.

Currently, NCUA's proposed version of risk-based capital 2 regulation still has some inconsistency to the national and international Basel standard; however, it has improved from the original risk-based capital proposal.

Key areas of concern for the Florida Credit Union in the 2nd proposal are as follows:

1) Risk Based Capital Does Not Apply to Credit Unions Under $100 Million

Our position is that the final capital regulation must be applied to the entire industry, regardless of size. Not doing so is a mistake. Hopefully, most credit unions under $100 million will grow beyond that point. If they are not subject to the capital regulation, they will be in for a rude awakening when they reach $100 million. This situation is further compounded by the number of credit unions in this group that have received the low income designation. Exempt from the capital regulation, they would move from having no commercial lending caps, including commercial loan participations, to having a cap that could immediately become problematic in terms of regulatory compliance.

It is important to note that the worst performing credit unions are the smallest ones. Their growth is flat and profitability is low relative to other credit unions. This is a strong argument to include them.

2) Goodwill expiration date of January 2025

Florida Credit Union recommends for the "supervisory merger" goodwill to be factored in without an expiration date. The industry needs merger partners to be willing to participate without the fear of the merger goodwill affecting their Risk-Based Worth calculation.

3) All of a commercial loans and not just the amount over $50,000 would be subject to risk weighting.

Florida Credit Union is recommending keeping the same aggregate of $50,000 for a business threshold that is in regulation for Member Business Lending to be the threshold for RBNW for commercial lending. This consistency will ease the burden for Call Reporting and examinations for commercial lending. Having two different regulations defining a business loan in different ways is a confusing administrative burden for credit unions.

4) First lien and junior lien residential real estate loans over 35% of assets and 20% of assets respectively would have higher RWs than for banks (75% VS. 50%; 150% VS. 100%).

National Credit Union Administration

Risk-Based Capital Ratio: Risk Weights at a Glance

Category	Sub Category	Current NCUA Rule (since 2002)	2014 NCUA Proposal (10.5% Threshold)	Revised 2015 NCUA Proposal (10% Threshold)	FDIC (10% Threshold)	2015 NCUA Comparable to FDIC Risk Weight?
		Inferred Risk Weights [1]	Risk Weight	Risk Weight	Risk Weight	(Yes/No)
Loans Continued...		*(10.5% / 10%)*				
	Multi-family statutory treatment for FDIC	MBL	MBL	Commercial	50%	N
	OLD: Current 1st lien real estate loans < 25% of assets	*n/a* [10]	*50%*	n/a	50%	
	OLD: Current 1st lien real estate loans >25% - 35% of assets	*n/a* [10]	*75%*	n/a	50%	
	Current 1st lien residential real estate loans <35% of assets	n/a [10]	n/a	50% [11]	50%	Y
	Current 1st lien residential real estate loans >35% of assets	n/a [10]	100%	75% [11]	50%	N
	Non-current 1st lien residential real estate	n/a [10]	100% - 150% [12]	100%	100%	Y
	OLD: Current all junior real estate loans < 10% of assets	*n/a* [10]	*100%*	n/a	100%	
	OLD: Current all junior real estate loan >10% - 20% of assets	*n/a* [10]	*125%*	n/a	100%	
	Current junior real estate loans < 20% of assets	n/a [10]	n/a	100% [11]	100%	Y
	Current junior real estate loans > 20% of assets	n/a [10]	150%	150% [11]	100%	N
	Non-current junior real estate loans	n/a [10]	100% - 150%	150%	100%	N

Under Basel III, first mortgage loans (1-4 residential) are given risk weights based on current status (delinquent vs non-delinquent) and whether the loan was prudently underwritten at 50% or 100%. Why does this proposal vary based on a percentage of assets and first or second lien versus delinquency status on the banking side? In the body of the regulation, NCUA mentions concentration risk as the reason for heavier weightings over the FDIC weights. As mentioned above, concentration risk magnifies other risks and is not a risk by itself. Since NCUA stated they are removing interest rate risk from the regulation, credit risk must be the driver for the heavier risk weightings over the FDIC. We see no argument that would suggest Real Estate loans are riskier in credit unions than banks.

Florida Credit Union recommends that the Basel III and FDIC risk weights of 50% be adopted for all first mortgage loans.

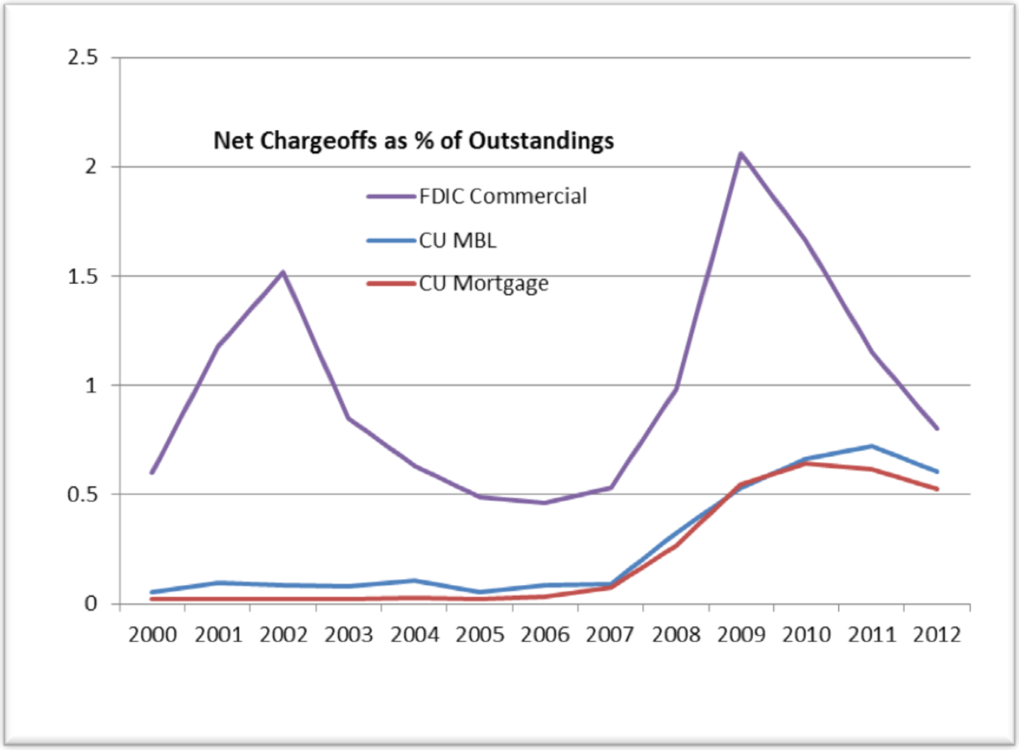
It is interesting to note that charge-offs for second lien products were only .05% in 2004. They were high during the recession, peaking at 1.33% by December 2010, but they are on their way to normalizing and were at .55% in December 2013. Clearly second lien mortgages do not deserve a higher risk weighting than credit cards. Their performance over the last 30 – 40 years, recession aside, justifies this asset class being treated as a first lien mortgage. Additionally, the regulation makes no distinction between types of second lien loans. In our case, most are closed end, five and seven year term loans that have credit risk reduced rapidly as the loan is repaid. Again, not adopting the Basel III 100% weights for all second liens will limit access to credit and slow the economic recovery. While the commentary in the proposed regulation mentions delinquency rates during the recession on this product, there is no quantification justifying the heavier weights for this product. This is a loan NCUA should encourage credit unions to make as they are far better secured than consumer loans such as autos and unsecured loans.

Florida Credit Union recommends that the Basel III and FDIC risk weights for junior lien mortgages be adopted across the board.

5) Commercial Loans > 50% of Assets are at a 150% Risk Weighting:

Under Basel III, the maximum risk rating for member business lending is 100% with the exception of high volatility commercial real estate loans which carries a 150% risk weighting. High volatility facilities are defined as a financial institution that finances the acquisition, development, or construction of real property other than 1-4 family residential property (Developers). NCUA seems to be strongly discouraging growth in this area due to the high risk weighting associated with percentage of assets in MBLs over 50%. Again, this should be managed through an institution's ALM, Member Business Loan and Concentration policies.

The banking industry has been immersed in commercial lending and does not see a need for such an intense risk rating on this asset class. FDIC regulated institutions have an unlimited ability to hold commercial loans on their books. The proposed regulation seems to be based on historical losses within a small group of credit unions; NCUA is unfairly impacting all credit unions and adversely controlling future credit union commercial lending endeavors. In fact, when you look at MBL performance long term, across all financial institutions, performance indicates these are low risk loans. The table below shows the current performance of MBLs in banks and CUs. It is important to note that community banks have no limit on the percent of their assets that may be in commercial loans. It is also important to note that current NCUA commercial lending regulations are far more conservative that the FDIC. Examples include: construction loans are limited to 15% of net worth, loan to value ratios are 80% versus 85%, and credit unions are limited to $100,000 in unsecured loan size where banks have no such restriction.



The revised risk ratings give an unfair advantage to the banking industry, especially with regard to mortgage and commercial lending. The Basel III committee has created guidelines that will be used domestically by FDIC and OCC as well as internationally. Why does NCUA feel the need to be more stringent on the capital risk weighting requirements? Please revise the proposal to ensure a more equitable competitive industry**.**

Florida Credit Union recommends NCUA adopt the risk weightings of 100% for all commercial loans.

6) There is a lot of discussion about interest rate risk throughout the proposed regulation, NCUA has stated they are taking interest rate risk out of the regulation but may write a separate risk based capital interest rate risk regulation. This is a great concern for Florida Credit Union; as one of the comments in the body of the proposed regulation is that one approach might be to use changes in net economic value as a basis for assigning risk weightings to various asset classes in a future regulation. We would take great exception to this. It is important to understand that net economic value is a calculation that comes from ALM modeling; the most common number used would be from an instantaneous 300 basis point interest rate risk shock to a credit union's balance sheet. In reality, this is a scenario that would be hard to imagine, more likely you would see changes in interest rates happen in a period of several years. On top of this, when a model creates a calculation there are dozens of assumptions built into the model; each assumption has the potential to significantly impact the calculated result. The point is that interest rate risk modeling is just that, it is modeling with hypothetical assumptions using a particular credit union’s balance sheet. It is a very useful tool in helping to think through what could happen with interest rates, however, it is a simulation that would be extremely inappropriate to use for calculating required capital levels. Interest rate risk needs to be managed through the regulatory process as it has been done through both banks and credit unions for decades.

The body of the current proposed regulation states that the Federal Credit Union Act requires NCUA to consider all material risk with interest rate risk being part of that, although not specifically named. One could argue that the proposed risk weights as well as the current capital regulations capture this and all other risks for that matter. Other material risks include: market risk, economic risk caused by severe recession, localized events such as mass layoffs, and risk from competitors using non-traditional delivery channels, risk from being limited to where you can compete field of membership wise, etc… The point is that capital is present to address many different types of risks including interest rate risk. Looking back at our industry’s history over the last forty and fifty years, including the severe interest rate spikes in the nineteen eighties show that what we have in place works.

Sincerely,

Mark N. Starr
President/CEO