



May 23, 2015

Mr. Gerard Poliquin  
Secretary to the NCUA Board  
1775 Duke Street  
Alexandria, VA 22314

Re: Proposed NCUA Revised Risk Based Capital Rule

Dear Mr. Poliquin,

Credit Union of Texas is a \$1.1 billion state-chartered credit union headquartered in Dallas, Texas. We submit the following comments on the revised Risk Based Capital proposal (RBC-2).

We wish to thank NCUA for reassessing its original RBC (RBC-1) rule and making certain helpful revisions. First, we acknowledge and appreciate the reconsideration of risk weights for the Investments portfolio. The RBC-1 proposal assigns risk weights to most investments based on their weighted average life. This RBC-2 proposal removes weighted average life, and consequently interest rate risk, from the investment risk weights, and instead focuses on the credit risk of the issuer or underlying collateral. We believe this is a much more judicious approach. Second, we are relieved that the risk-weighting of a wholly-owned, fully consolidated CUSO under RBC-2 has been revised from an incorrect analysis of the risk and weight under RBC-1 and now has an impact that is appropriate from a consolidation standpoint. Third, we appreciate the additional time credit unions have been allotted to comply with any final rule that may be passed. Under RBC-2, the longer implementation deadline and the new risk ratings will allow a credit union to more meaningfully assess whether a particular risk should be mitigated, especially in light of more reasonable and thoughtful risk-weights, or whether eliminating the risk is the more prudent course in the context of the credit union's overall portfolio.

We would like to outline our continued concerns as they relate to RBC-2.

#### Interest Rate Risk

Credit Union of Texas does not believe that a separate Interest Rate Risk (IRR) rule is necessary. We believe the NCUA has adequately addressed IRR in its numerous rules and regulations as well as in letters to credit unions addressing IRR Policy and Program Requirements, Non-Maturity Shares and Balance Sheet Risk, etc. These communications deal with the responsibilities of boards and management, address IRR measurement and monitoring, internal controls, and the integration of IRR results into a credit union's decision making. The guidance also provides additional considerations if a credit union is large with complex or high-risk balance sheets. In issuing these rules, NCUA indicates that the interest rate risk policy and

implementation program will be among the factors NCUA will consider in determining a credit union's insurability as well as safety and soundness. In the two and a half years since the IRR regulations were effective, nothing of significance has changed that should result in additional requirements "just because" RBC-2 does not address IRR. We believe the current guidance allows for each credit union to focus on achieving long-term sustainability through their unique business model as opposed to passing a particular IRR standard where the unique risk of each credit union may not be appropriately captured. In summary, we believe the 2012 guidance was more than sufficient for credit unions and NCUA to be able to manage and monitor IRR.

### Capital Adequacy

Credit Union of Texas has grave concerns that the proposed "capital adequacy" requirements under RBC-2 are nothing more than re-branded Individual Minimum Capital Requirements from RBC-1. We are disappointed that the discretion and limitation of the authority of our examiners under capital adequacy review is not set forth in this proposed rulemaking, where we might have the ability to comment on what the NCUA has in mind. We have only a statement that the boundaries of the examiners under the capital adequacy rule will be established via "supervisory guidance." We suggest that knowing the parameters of the discretion and limitation of examiners is as critical to us as being able to comment generally on the concept of capital adequacy. Because we are denied the opportunity to review and comment on NCUA's intentions, we oppose a proposed capital adequacy requirement.

Although NCUA is pointing out that a situational increase in capital follows the Other Banking Agencies' model, the NCUA's RBC-2 is not like the Other Banking Agencies' risk-based capital model. We acknowledge that the potential risk to the Share Insurance Fund in the case of credit union failure is a real risk, in the same way that the risk to the Federal Deposit Insurance Fund is real, but that's what the capital requirements tied to the underlying risk-weights are supposed to address. In a credit union universe where probably *no* credit union is systemically important to the national or global economy (unlike banks insured by the FDIC), an examiner's discretionary requirement of additional capital above the risk-based levels ends up feeling nothing but arbitrary because the potential macroeconomic harm is simply different as between NCUA-supervised institutions and financial institutions insured by Other Banking Agencies.

The FDIC Risk Management Manual of Examination Policies states "generally, a financial institution is expected to maintain capital commensurate with the nature and extent of risks to the institution and the ability of management to identify, measure, monitor, and control these risks." We certainly expect the NCUA to draft guidance which requires an examiner to take into account and reward past and existing good and prudent management history. In other words, the guidance should not just be a take-away system. An examiner must also be charged to

consider capital adequacy as only one part of the picture of the health of a credit union before additional capital requirements are mandated.

We would strongly oppose any attempt by NCUA to allow an examiner to determine that the required capital adequacy plan of a “complex” credit union is inadequate on a wholesale basis. Capital planning is an individualized business decision which considers corporate risk appetite and other strategic factors. The plan as a whole absolutely should not be subject to scrutiny or revision by examiners for a “good enough” or “not good enough” decision.

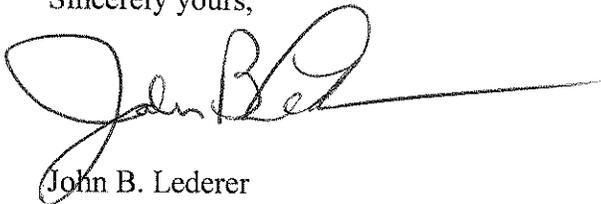
Again, although we oppose any additional capital requirements on a per-institution basis that are not already imposed under RBC-2, it would be unreasonable for additional capital requirements to be imposed unless the examiner has reviewed the condition of the credit union as a whole and found that the financial history or condition is unstable, that managerial resources and/or the future earnings prospects are not adequate, that there are sizeable off-balance sheet or funding risks, that significant risks exist from concentrations of credit or nontraditional activities, the credit union faces excessive interest rate risk exposure, or that a significant volume of assets are adversely classified.

#### “Complex” Credit Union

Finally, the Federal Credit Union Act calls for the Board to define a “complex” credit union based on the portfolios of assets and liabilities of credit unions. The Board’s simplistic approach of defining complex based solely on asset size appears to us to be unsupported. We feel very strongly that the Board’s should define a complex credit union based on the portfolios of assets and liabilities as Congress intended.

Thank you for the opportunity to comment on the revised proposal.

Sincerely yours,

A handwritten signature in black ink, appearing to read "John B. Lederer", with a long horizontal flourish extending to the right.

John B. Lederer  
President and Chief Executive Officer  
Credit Union of Texas