April 23, 2015

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

RE: Comments on Proposed Rule: Risk-Based Capital 2

Dear Mr. Poliquin:

TAPCO Credit Union in Washington State appreciates the opportunity to comment on the National Credit Union Administration (NCUA) Board's proposal to revise Prompt Corrective Action related to Risk-Based Capital. TAPCO has served the Community of Pierce County since 1934. We currently have 24,500 members and $309 million in assets.

TAPCO agrees that from time to time capital standards need to be reviewed to use recent events as a learning tool which may improve the safety and soundness of the industry we serve. However, the current Proposed Rule will have negative effects on our members and discourage investments in long term strategies necessary for our Credit Union to thrive. We ask the NCUA to consider adjustments to the proposal that will allow credit unions to continue to serve their memberships in a safe and sound manner. TAPCO requests that the proposed risk-based well capitalized requirements align closely with the existing net worth requirements which served the industry as a whole well in the recent downturn.

Effective supervision is intelligent supervision and patient reorganization when problems arise. This approach is how we have thrived as an industry for many decades and we should not abandon this method for a strict rule making approach by our credit union regulatory community. History has shown that the cooperative model of credit unions is a successful one. The diverse nature of our charters has meant that despite capital limitations, except member good will and loyalty, the forefathers and current stakeholders of the industry have built the second largest financial system in America today. The proposed rule will serve to hinder that diversity by placing credit unions into more general categories. Protect the true nature of credit unions by preserving the ability of credit unions to serve their memberships uniquely and preserve the charters that made this industry possible.

We believe the revised RBC rule penalizes credit unions for specific activities such as real estate lending and member business lending by placing a capital tax on the resulting assets of credit lending. Because credit unions only have one source of earnings, that additional capital tax must come directly out of our members' pockets through a reduction in savings rates, increase in loan rates, and potentially changes to transaction fees. The estimate of the actual cost to the industry and ultimately the members should be considered rather than the potential risk to the insurance fund. We believe the end result will be thousands of homogenous balance sheets that can be easily understood from a supervisory perspective. However, this risk posture will lead credit unions to shy away from diversity or cooperative reason for the charter and field of membership. The end result of this rule will ultimately force credit unions into potential areas of investment and lending creating industry wide concentrations that could be impacted by similar economic variables. In and of itself, this rule may create more systemic risk than it proposes to control.

Our credit union board and management team make numerous decisions about the composition of our balance sheet and capital adequacy based on the needs of our unique membership and local community. These factors do not just take into consideration the asset type, but include the reasons for our charter to begin with, corresponding funding from liabilities, and unique economic needs of the communities we serve. These local decisions are driven by diverse business priorities, pricing and growth objectives as well as responses to unique local needs. We believe our decisions have resulted in varied portfolio strategies which enhance the balance sheet's overall soundness rather than a single approach nationwide to risk management. RBC2 puts that at risk.

We must stop the debate about the nuances of the rule. After outlining the substantial objections, examine the modeling approach which needs to be tested and tried in the examination process as a tool, which the results can then be shared with the industry before suggesting that a model be embedded in a law. Test with credit unions that have the sophistication for the testing and then work down towards the testing with other credit unions after the model and tools are validated. This will allow a reasonable implementation period so the examiners as well as the credit unions can develop the knowledge needed for sound decisions going forward. An open process of testing results will benefit everyone.

The credit union industry would be served better if the formulas and risk weights within RBC2 were not given the force of law.

There is no evidence that risk based capital requirements, utilized by the banking regulators, work any better than the net worth requirements currently imposed by the NCUA.

The CUNA analysis of NCUSIF losses vs. FDIC losses from 2007 to 2013 shows the banking loss rate, with risk-based capital standards in place, was 8.8 times higher than the credit union experience with a simple leverage ratio being used for capital adequacy. During this period the FDIC loss rate was $2.30 per $1,000 of deposits vs. the credit union loss rate of $0.26 per $1,000 of deposits. Banks have had risk-based capital requirements for nearly 25 years and these requirements neither prevented the latest crisis in 2007 nor stopped significant failures in the banking system.

The credit union industry came through the worst recession in history with reduced capital. But, in our opinion, the capital is there to weather such storms and it served the membership well. Our own experience reduced our capital level from 12% to 8% which is still considered well capitalized. If the capital level is not there to be used in environments like the Great Recession then when is it to be used? Using our capital during the downturn allowed us to continue to serve our membership and sustain our growth in the community.

The question needs to be asked, “Is it necessary to implement a proposal where most credit unions will see reduced buffers above being well capitalized?” Most credit union failures, including the Corporates, centered on high concentration levels that are subject to the annual examination process. As opposed to implementing risk-based capital standards that appear to measure risk and concentration risk unevenly, the NCUA could consider to better define risk weights in combination with the need to improve industry and examiner understanding of risk.

Under the Proposed Rule, no distinction is made on the risk weightings assigned to mortgage loans of various maturity and repricing terms. A 30 year fixed rate mortgage gets the same risk weight as a 1 year adjustable rate mortgage and a 30 year fixed rate home equity loan gets the same risk weight as a variable rate home equity line of credit. As opposed to implementing risk-based capital standards that lump all mortgage loans together there should there be more diversity in the risk weighting.
TAPCO believes that the capital requirement for adjustable rate mortgages and shorter maturity fixed rate mortgage loans should be lowered in the final version of the Rule to fairly take into consideration the reduced risk associated with adjustable and shorter term mortgage loan products.

Consideration should be given to permit federally insured credit unions to offer supplementary capital.

Credit unions remain the only financial institutions that do not have access to sources of capital beyond retained earnings. If higher capital standards are to be found necessary for the credit union industry under the Proposed Rule, affording credit unions the ability to raise supplementary capital that counts towards net worth requirements seems to be an appropriate policy consideration.

In summary, TAPCO feels the current Proposed Risk Based Capital Rule may be too general and uneven in assigning risk weightings. Focusing on a regulatory model designed to identify concentration and interest rate risk and not member needs, has the potential to override the Board's and Management's judgments on business strategy and risk, while leaving the Credit Union subject to examiner and Agency arbitrary discretion for higher minimum capital limits.

If credit unions are all put in one box, we will develop systemic risk. The industry may be subject to an increasing and widespread failure. The strength of the industry is its varied form of services and delivery systems while its weakness was concentration at the Corporate Credit Union level. The variety of credit union business models worked well in the great recession evidenced by the health of the industry today. The Proposed Rule in its current form may reduce the risks to the NCUSIF, but at a significant cost to the credit union industry and their members through reduced higher-cost residential and member business loans.

In addition, it will place credit unions at a competitive disadvantage as it would require far more capital than what is required for banks, especially when considering a credit union’s inability to raise supplemental capital. TAPCO feels that with modifications to the Proposed Rule based on objective criteria, the final version of the Risk-Based Capital Rule could in fact be an improvement over current Risk Based Net Worth.

Thank you for the opportunity to comment on the Proposed Rule and for listening to our concerns. Please feel free to contact me with any questions or comments regarding TAPCO's comments on the Proposed Rule.

Sincerely,

L. Scott Drabb, CPA
TAPCO Credit Union VP/CFO

Sent via: US Postal Service
Email: regcomments@ncua.gov