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Federal Charter 15523
Low-Income Designation, CDCU, CDFI
$66 million assets; 7,200 members

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Risk-based capital 2 – FOCUS: CUSOs and Rural Remoteness

A manager drafted a memo chiding employees for excessive work absences and how serious this must be taken. At the root: just one employee creating a problem.

Can't we just counsel the problem employee and skip the memo, I asked.

That's how I feel about RBC2. Does the NCUA really have to promulgate more complex rules and tasks for all credit unions, when in fact almost all credit unions have shown we are not a threat to the NCUSIF? We just weathered a major economic meltdown. We're still standing, but the external heat remains intense.

We have to get our hands out of the pockets of credit union members – all of us. We have to do that.

When all attention is on pushing credit unions
to increase fees
in order to build income
to stoke net worth
to assure no risk to the NCUSIF,
our industry is contributing to the wealth gap.

Why? Well because we all know what's driving revenue in these low-interest times. It's fees – from members.

American workers continue losing ground every day. It's just wrong.

We're beyond safety and soundness and into some new realm of risk aversity that is not justified. Before I get to specifics, let me say where I think NCUA should be making a difference.

Promote supplemental capital and assist in the understanding of how it works on the balance sheet and how it can help credit unions serve members. Continue promoting differentiation from banks – and mean it. Educate our industry on the significance of diversifying investments and loan portfolios as a means of risk mitigation.

Balance Sheets can be rebalanced. NCUA has a toolbox in hand to address inappropriate risk and credit unions veering off course. RBC2 is better than RBC1, but again – why do we need hard and fast numbers that don't always measure the right things?

I'm going to focus on the risk ratings for CUSOs, because that's what's got me most frustrated.

TFCU became member-owners of two CUSOs in 2014 – one for our core computer system and the other a call center/support operation. How do these imply terrific risk? In fact, they demonstrate prudent management – a stronger core system with greater security, redundancy, backup, and improved technology – ***and***, we member owners get to make sure that's what we're getting. The second, a Call Center and back office service CUSO that means our members are getting fuller and prompt attention to their needs – a trained backup staff on call to supplement – and fill in if we have an emergency, a disaster, or an interruption. Plus, back office and management support if we need it.

Come on! 150% risk rating?

Even lending and financial investment CUSOs are mitigating risk because more credit unions are involved, there's wider participation, more minds at work, and there are more owners with a stake in the venture. I just do not comprehend the thinking here. Hitching up with third party vendors seems much riskier to me than aligning with like-minded people inside our industry.

Diversification is always a risk mitigation strategy. Not all "mortgage" loans are alike. Not all "real estate" loans are alike. But credit union members and prospective members need a place to live, and home ownership is asset building. There are differences between a condo and a jumbo loan, a mobile home and a second home. And they can all be in the same loan portfolio, and there should be this kind of variety. It's homogenization that's the real threat.

Mortgage servicing – 150%. Oh my goodness. We became an approved lender with the Alaska Housing Finance Corporation in 2014 to give our members in rural remote Alaska communities (on islands) a chance at home financing, where conventional lenders fear to go (or make it impossible to qualify). We don't hold the loans, we do get origination fees. But the deal is we have to service these mortgages. **Right now we have six.** Gee, I think we can handle this crowd. **PLUS,** our CUSO-core computer system has mortgage servicing built into the system. And our CUSO-Call Center/Back Office Support partner can actually do the mortgage servicing for us, if we elect. Imagine that –we have appropriate software! We have a partner who can take it over! ***How is this high risk?***

I'm watching what's spinning out of all this, and I wonder how credit unions are going to bring to Americans what we offered in the first place: thrift and credit, and a real feeling of being in a cooperative.

Please stop holding us to some inane numbers standard. We have to be the heart and soul of the financial industry, or else we'll join the soulless zombie institutions out to suck the lifeblood out of Americans through FEES.

If credit union managers have to divert attention to RBC2 calculations, machinations, and responses, that's less time to work on the underserved, credit restoration, services to counter the crooks and payday lenders, financial literacy, computer security, and a whole new world of internet finance options. There's not enough time in the day or energy to do all this dancing.

The next area I want to address is rural remote credit unions. Again RBC2, just like 1, paints broad strokes for all CUs. Doing business in remote areas, in rural communities, is just so very different than in urban markets. Often there's no one else to serve the members. Often branches are many miles apart, or in our case, islands apart. The expenses are so much greater. The profit is so much thinner. The time to build capital so much longer.

Is there reward for these efforts?

Again, when it comes to real estate, everyone needs a place to live, and why shouldn't homebuyers be coming to ***their*** credit union for financing?

NCUA proposes defining as "complex" credit unions over $100 million in assets. Good news for us, but not really. It's an arbitrary line in the sand. It's a number. We'll pass that $100 million mark someday.

Again – diversification in the investment and loan portfolio, and not just by broad stroke "type." A credit union's ability, past performance, community partners, and strategic plan – are much more significant than today's numbers on paper. That RBC2 yardstick isn't going to measure any of that.

Each and every day I realize how very important it is to our credit union to be a Community Development Financial Institution and to have our Low-Income Credit Union designation. I know we are pursuing diversification and it will carry us through economic storms.

RBC2 is overkill. Thanks for paring it down, but it's still overkill.

Please give American workers a chance to gain some ground through their financial cooperatives. You already have the tools in hand to assure safety and soundness, and credit unions have shown their responsibility.

TONGASS FEDERAL CREDIT UNION

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