Red River
CREDIT UNION
We *exist* to serve the financial needs of our member-owners.

April 24, 2015

To: regcomments@ncua.gov

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

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

Dear Mr. Poliquin:

As the Chief Financial Officer of Red River Employees Federal Credit Union (RREFCU), I appreciate the opportunity to comment on the National Credit Union Administration (NCUA) Board's second proposal to revise Prompt Corrective Action related to Risk-Based Capital. I would first like to thank NCUA for listening to the first round of comments.

While RBC2 represents an improvement over the original proposal NCUA issued last year, I must question the need for this regulation at all and the drain on credit union resources that compliance will create. Overall, I am opposed to its implementation.

RBC2 still raises concerns for me regarding the proposal's capital adequacy plan, risk-weights, and increased complexity of providing the necessary data on the Call Report.

If NCUA must move forward with this rule, the following are the comments that I am asking NCUA to consider in developing the final version. I also encourage NCUA to delay the implementation date until 2021. In addition, I have provided comments on the need for additional interest rate risk (IRR) regulation for the purposes of this proposed rule.

1. **Investments in unconsolidated CUSOs should be risk weighted at 100% as opposed to 150% under the Proposed Rule.**

I support the proposed treatment of wholly-owned, consolidated CUSO investments. The risk weights for unconsolidated CUSO investments, though, remains too high and could affect a credit union's ability to own and operate CUSOs. A credit union's exposure is limited to its investment in the CUSO. The NCUA already limits a credit union's investment in CUSOs, under NCUA Rule 712.4, so it makes no sense to impose a 150% risk weighting on CUSO investments. The services provided by RREFCU's wholly-owned CUSO pose no risk to the credit union's capital; various insurance products are offered to RREFCU's membership at affordable prices, with the CUSO receiving a portion of the commission or fee. RREFCU's partial ownership of a business lending CUSO also poses no greater risk than the amount of the credit union's capital stock investment in the CUSO. This partnership has allowed RREFCU to meet the needs of the business owners within our membership area; members whose needs could not be met by the larger commercial banks. Involvement with CUSOs has increased RREFCU's profitability by boosting both non-interest income and interest income while improving the member experience and exemplifying the basic credit union philosophy of people helping people. I am very concerned that the inflated risk weighting on CUSO investments may hinder collaboration among credit unions at a time when such collaboration is vital to the future success of the industry. I believe unconsolidated CUSO investments should be risk weighted at no more than 100%.

2. **Risk weights for mortgage loans and member business loans should be lower than what the federal bank regulators require.**

Specifically, current first lien residential mortgage loans over 35% of assets would have a risk weight of 75%, actually higher than the 50% risk weight for banks. Current and non-junior real estate loans over 20% of assets would also have higher risk weights than provided for banks. Also, credit union commercial loans over 50% of assets could be as low as 100%. These risk weights should be adjusted downward to levels no more than those in place for banks as credit unions certainly do not have higher levels of risk associated with holding these assets.

3. **Although risk weights for non-current loans (90 days past due) mirror FDIC risk weights, the weights should be no more than 100%.**

I support the increase of the past-due loan term to 90 days rather than 60, as this aligns with the FDIC rule. However, the 150% risk weight for non-current loans remains too high. The Allowance for Loan and Lease Losses (ALLL) is funded by a capital outlay so by risk weighting non-current loans at 150%, a credit union is essentially reserving capital for expected credit losses in addition to the ALLL. In addition, I believe that the impending release of the Financial Accounting Standards Board's (FASB) final rule on Current Expected Credit Loss Model (CECL) will result in a necessary substantial capital infusion into the Allowance account, perhaps doubling current levels of ALLL balances, thus our biggest concern with the 150% risk weight. I urge NCUA to consider the regulatory burdens placed on credit unions from other agencies and to lower the risk weight for non-current loans to no higher than 100%. The combination of the high risk weight and the FASB guidance will likely stifle future loans being granted to those members with less- than-stellar credit profiles.

4. **The NCUSIF deposit should not be deducted from the risk-based capital numerator.**

The National Credit Union Share Insurance Fund 1% deposit is being ignored in the risk-based capital calculation. The NCUSIF deposit is a valid asset that can be refunded for various reasons including conversion to a bank or savings institution charter, a credit union electing private insurance instead of NCUA or voluntary liquidation. In addition, the deposit can specifically be attributable to a failed credit union providing an additional buffer against NCUSIF losses in addition to the failed credit union's capital. By deducting the NCUSIF deposit from assets and equity, it implies the deposit itself has no value. If one of the primary objectives of the Rule is to identify risks to the share insurance fund, then deducting the deposit implies a market value of zero – which is clearly NOT the case.

5. **NCUA should give credit unions an option to provide the additional Call Report information required by RBC2.**

In the Supplemental Information to the proposal, NCUA states that, "the Call Report changes prompted by this proposed rule are the kind that would easily be handled as part of the normal and routine maintenance of a credit union's data reporting system." I encourage NCUA to recognize that any and all changes require the expenditure of resources. Complying with the existing rules from NCUA and other regulators are a struggle today, thus I urge NCUA to consider any alternatives that will reduce the burden RBC2 will impose.

The proposed rule will require several changes to the Call Report in order to collect information on a number of new data elements provided in the proposal. The proposed changes will require RREFCU to provide more detail regarding the information that is presently reported on the Call Report and to provide new information that presently is not required. I ask NCUA to consider an alternative such as allowing credit unions the option of providing the additional, detailed information provided in this proposal by simply including additional optional data fields within the Call Report.

6. **Eliminate the requirement in the new proposal that a covered credit union must maintain capital commensurate with the level and nature of all of its risks and must have a process to determine its capital adequacy in light of its risk and a comprehensive written strategy to maintain "an appropriate level of capital".**

I am concerned that this proposed provision would allow for examiners to continually demand additional capital and potentially subject the credit union to additional scrutiny in regards to its capital level and capital plans.

7. **Implementation should be delayed to 2021 to coincide with the termination of the corporate stabilization fund.**

I appreciate that NCUA has proposed a significant delay in the implementation of RBC2, but I encourage NCUA to delay the implementation until 2021 to coincide with the termination of the corporate stabilization fund, at which time credit unions should receive refunds. RREFCU could utilize the refund to increase capital levels to insure we remain well-capitalized under RBC2.

8. **A separate Interest Rate Risk (IRR) rule is unnecessary because examiners have sufficient tools to supervise interest rate risk.**

I strongly disagree that a separate IRR standard is needed to reasonably assess IRR at credit unions. On September 30, 2012, the NCUA Board's final interest rate risk rule took effect. The rule imposes different requirements on federally insured credit unions based on asset size; requirements included the development and adoption of a written policy on IRR management and program to effectively implement that policy as part of their asset-liability management responsibilities.

The guidance provided in the appendix to the IRR rule describes best practices to consider as the policies are written and IRR programs constructed. It deals with the responsibilities of boards and management, addresses IRR measurement and monitoring, internal controls, and the integration of IRR results into the decision making process. The guidance also provides additional considerations for large credit unions with complex or high-risk balance sheets. This alone should be the basis of NCUA's efforts to manage IRR concerns.

Taking a one-size-fits-all approach by standardizing assumptions, or approaches to assumptions, guarantees that the unique risk of an individual credit union will not be appropriately captured. I believe there is absolutely no need to burden all credit unions with a complicated, one-size-fits-all IRR approach. Instead, the focus should be squarely on the small number of credit unions that might be considered severe IRR outliers. These credit unions could be identified by the use of an "identifier model" perhaps based on data contained within the Call Report. IRR should be handled in the supervisory process only (as is the case with banks). I encourage NCUA to form an advisory group of CU leaders prior to the development of any new proposal on IRR.

In summary, I feel the Proposed Risk Based Capital Rule is absolutely unnecessary and I am opposed to its implementation. The Rule will increase costs to members and threaten the financial stability of the industry in the long term. The Rule focuses on a regulator's model designed to identify concentration rate and not member needs, has the potential to override the Board's and Management's judgments on business strategy and risk, and leaves credit unions vulnerable to examiner and Agency subjectivity. The Proposed Rule, in its current form, will most likely reduce the risks to the NCUSIF but at a significant cost to credit unions and their members through reduced returns, higher-costs and increased complexity of preparing the 5300 Call Report.

I feel the current Proposed Rule will have negative effects on credit union members and discourage investments in long term strategies, necessary to the survival of credit unions. This will force credit union management to reshape the credit union's business model as it relates to long term investment, lending and expansion strategies, negatively impacting the member experience and making the credit union less competitive with banks and other competing financial institutions. The Rule will inhibit member growth and discourage credit unions from investing in branches and new technology.

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

Sincerely,

Sonya Jaynes

Sonya Jaynes
Chief Financial Officer
Red River Employees FCU