Mr. Gerard Poliquin
Secretary, NCUA Board
1775 Duke Street
Alexandria, Va. 22314-3428

April 24, 2015

Ref: NCUA Risk-Based Capital Proposed, RIN 3133-AD77

On behalf of GTE Financial and its 233,000 members, GTE appreciates the opportunity to submit the following comments on NCUA Risk-Based Capital Proposed Regulation (RBC2).

GTE Financial has been serving West Central Florida for 80 years, since 1935, and we are a designated low-income credit union with $1.741 billion in assets.

Under this proposal, GTE's Net Worth Ratio stays "Well Capitalized", however, using the RBC2 measurements as they are proposed, GTE's current and future business model of serving our members would be significantly penalized by raising member costs for what we consider the accumulation of excess reserves impacting growth in membership, lending, balance sheet management as well as harming partnership access through excess weighting of mortgage servicing rights, and CUSO investments.

GTE maintains its stance on the subject of a Risk Based Capital measurement and strongly disagrees with the proposal as it is written and urges the NCUA board not to adopt this rule.

GTE believes the current leverage ratio (7% for well capitalized) provides ample equity for future losses, as this measurement applies to all assets. In addition to the leverage ratio and credit loss exposure is properly accounted for separately in the Allowance for Loan Loss Account. Proof of this in GTE's own experience was through our ability to weather the great recession of 2007, especially in Florida, one of the most heavily impacted states by the great recession.

Although there have been several changes from RBC1 to RBC2, there are still significant flaws in the proposal which ignore the Credit Union model in favor of the large, international banking model of measuring risk. Our comments on the specifics of the RBC2 proposal describe why we are not in favor of certain provisions.

Risk-Weights - GTE does not agree with the risk weights and believes they are too high and will require excessive capital accumulation from our members.

Mortgage Servicing Assets – GTE urges NCUA to take a closer look at MSR's and why FDIC assigns a high risk weight of 250% to this asset. As I understand it, under FDIC rules, banks can include the value of MSR's as tier one capital up to 10% their common equity with the remaining portion of MSR's being subject to the 250% RWA.

The impact of the RBC2 proposed 250% risk weight on Mortgage Servicing Rights for credit unions would:

- Adversely impact pricing and credit availability to members – we would have to charge higher uncompetitive rates to account for the additional capital needed putting the pricing out of reach of many low-income members.
- Stifle real estate finance when layered-in with other newly imposed regulation which credit unions are contending with the added major rulemaking under Dodd-Frank, including QM and major changes to RESPA and TILA.
- Skew the credit union industry to higher risk products like unsecured loans.

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Credit Unions will likely:

- Get out of the mortgage servicing business and lose that important connection with its members.
- Increase pricing of residential mortgage loans to members.
- Curtail lending to shrink the balance sheet to meet RBC requirements.

If risk based capital is adopted, GTE recommends MSRs receive at a minimum the same treatment as banks which allows for a threshold on MSR's as a percentage of total capital before applying this weight of risk weighted assets.

CUSO investments – The only loss that can be taken from a failed CUSO would be the dollars invested in it. Reserves in excess of that amount would more than discourage investment in CUSOs which have had significant benefit to the credit union industry providing affordable and collaborative innovation and non-interest income revenue streams. GTE recommends breaking down CUSOs to their specific purpose such as operational, fee generating, or start-up (less than 5 years in operation), and carry risk weights as follows:

- Operational CUSO = 50%
- Fee generating CUSO = 0%
- Start-up CUSO = 100%

Implementation Period - NCUA has also proposed an implementation period starting on January 1, 2019. This is too short a period of time for what could cause a credit union to restructure its balance sheet, methods of how if offers products and services and its current long-term plans for growth. The "banking" industry is driven by consumer demand and product pricing. This amount of time is insufficient and heightens the risk of recognizing or causing losses by influencing (forcing) credit unions to unnaturally calibrate their balance sheets by selling off assets that would naturally payoff over their agreed upon contractual time lines. If it is NCUA's wish to have capital requirements more consistent with banking regulatory measures, there should be more time for credit unions as there was for banks under BASEL capital standards since the only method of increasing Capital Ratio is through retained earnings and/or shrinking assets. NCUA should allow a much longer implementation period for this transition.

Goodwill - Under GAAP, Goodwill has no defined life and if impaired it is written down, (similar to the treatment of land). Goodwill should not be excluded from the calculation of the RBC numerator for non-supervisory mergers nor should the time constraint of supervisory merger goodwill be phased out in 2025. Goodwill is accumulated on a credit union's balance sheet because there was value in a transaction (merger) which NCUA must have approved. Healthy credit union mergers should be promoted; by excluding Goodwill, NCUA is hindering heathy mergers, promoting credit unions to change charters to mutual savings or convert to banks in order for the net economic value of a credit union to be recognized. This is highly restrictive to the industry and its members. NCUA need not put up this road block to credit union mergers and should leave Goodwill in as part of the calculation in either case. Let the current GAAP rules govern the treatment of the Goodwill asset, not exclude it from the Capital calculation.

Capital Adequacy Provision – RBC2 requirement that a credit union hold additional capital commensurate with is risks apart from PCA and the proposed RPC2. GTE urges NCUA to remove this proposal since it is extremely subjective and has the potential to translate into examiner opinions, estimates and biases versus management and Boards planning and decisions. The outcome will further limit credit unions from risk taking and the related benefits, thus taking options off the table meant to enhance financial services we can provide to our members.

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Specific Recommendations to Risk Weights (no risk weighting should be more than 100% of the asset pool)

Consumer loans – GTE recommends a 50% risk weight.

Delinquent consumer loans – GTE recommends 100% risk weight

Other real estate loans – (made up mainly of home equity loans) – GTE recommends these be treated as consumer loans and carry a 50% risk weight for non-delinquent and 100% for delinquent loans.

Summary

GTE strongly urges the NCUA to revisit this proposal and build a Risk Based Capital tool that examiners can use to identify levels of heightened risk, which in turn, the NCUA can then use as a tool to address these concerns through the examination process as opposed to the current proposal which attempts to apply a single formula with punitive risk weights and imposes a potential perverse negative impact on the credit union industry.

GTE's Board, Supervisory Committee, and Executive discussions on RBC2 supports the recommended changes detailed above and add the following comments:

- It is hard to find the logic in this proposed regulation. It is an overreaction to a problem that did not exist for natural person credit unions.
- It is a case of managing for the benefit of the fund, not the institutions working on behalf of consumers and members.
- These regulations threaten our identity, our ability to differentiate ourselves in the market, and our ability to serve members of modest means.
- These regulations will artificially raise pricing and our ability to return-to-member diminishes. The net result is a loss of value and relevance for our members. As choice is reduced and prices go up, all consumers lose.
- From the members' point of view, it will look like we are breaking our promise.
- While we will survive the proposed changes, we will be markedly different and unable to meet our mission to make loans to members for affordable housing and transportation. There is no upside for the underserved. It is a very visible loss of service which impacts the people in our communities who can least afford it.
- At GTE Financial, we have been there. We know the challenge of having to focus our strategic energies on capital at the expense of the best interest of our members. We have worked our way out of that problem but this regulation would force us to work again for capital and not on behalf of our members.

Thank you for the opportunity to comment on this proposed rule and for considering GTE's views on risk based capital requirements.

Sincerely,

Joseph Brancucci, President and Chief Executive Officer,

GTE Financial

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