April 27, 2015

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

RE: Risk Based Capital 2 (RBC2)

Dear Mr. Poliquin:

I want to thank the NCUA Board for the opportunity to comment on their second Risk Based Capital proposal. First, this proposal is markedly better than the Risk Based Capital proposal last year and I want to acknowledge the Board's effort in improving this proposal. My comments to the Board are centered on concerns that I outlined on the original proposal that still exist and suggestions for improvements to various areas of the current proposal. My chief concern is to allow credit unions that currently manage their capital efficiently in serving their members, to continue to do so.

Concerns that were Addressed from Last Proposal

Of the many issues I discussed last year in my comment regarding RBC paramount is the general belief that the higher the capital ratio the better. In my 25 year tenure there are 7,000 plus credit unions no longer here today; the vast majority of them were well-capitalized and financially sound. However, they did not reinvest enough of their capital to improve their competitive position and eventually realized they could no longer adequately serve their members. I also shared that TCT's past is proof that managing capital efficiently improves viability. In 1990 we entered the decade with 3.35% net worth, which today as you know is undercapitalized; it took nine years for us to attain a well-capitalized position. I am very grateful that our present day PCA regulation was not in place back then. It took us nine years because we focused on improving our business which led to growth. TCT is viable today because of our board's focus on improving service over growing our capital ratio. We would not have been afforded that opportunity under today's regulation.

In today's marketplace and compliance environment it is incredibly challenging to compete for our members' business. Having adequate capital and being able to compete for members and potential members can be more important than being classified as well-capitalized.

As I have had more time to digest last year's proposal and this year's proposal I am pleased to see the Board allows for this under RBC. By removing the earnings requirement there is no

longer a mandate to become well-capitalized. This better allows an adequately capitalized credit union to continue to grow, serve their members and reach out to serve potential members.

The reduction of risk weights and elimination of duration on investments are positive changes in RBC 2. As I stated last year our credit union retained our well capitalized position during the Financial Crisis. Under RBC 1 there were several times where we would have bordered undercapitalized and clearly we were not. Further, our growth strategy for the next couple of years under current policy would maintain our well capitalized position, but under RBC 1 we would border undercapitalize. RBC 2's changes allow us to maintain our well capitalized position. As we grow there is a possibility that in five years we may border adequately capitalized under RBC 2. However, the framework in RBC 2 is better suited for adequately capitalized credit unions that try to efficiently use their capital to serve their membership and continue to grow.

The Need to Change PCA

I still question whether the Board has proven the need to overhaul the PCA framework. As my letter last year stated credit unions performed very well during the Financial Crisis in 2008 and 2009. Furthermore, the Board's authority to do this without Congress approving may be subject to debate. However, the improvements made under this second proposal in conjunction with clarifying that an adequately capitalized position is sufficient, is a framework that has enough positives to continue considering RBC. There are a couple of issues I would like to ask the Board to consider to better improve the balance of capital adequacy and competitive viability.

Recommended Changes to RBC

Definition of a Complex Credit Union

There should be more than an asset threshold to define complex. In addition to $100 million in assets a combination of the following activities should also be considered to be deemed complex: member business loans, participation loans, indirect loans, real estate loans, non-agency mortgage-backed securities, non-mortgage-related securities with embedded options, collateralized mortgage obligations/real estate mortgage investment conduits, commercial mortgage-related securities, derivatives and borrowings. This would take into account the *portfolios of assets and liabilities of credit unions* as stated in the Federal Credit Union Act.

Capital Adequacy Plan

It is very common for credit unions to have desired benchmarks greater than regulation. We do not use net worth benchmarks in our policies to determine if we are adequately capitalized per regulation. For most of us it is a comfort area to operate our business strategy. Outcomes near or below a desired minimum provide management a benchmark to assess ALM and/or operational strategy decisions. This is not equivalent to a regulatory classification.

My other concern in having a capital adequacy plan is a credit union could be subject to capital standards greater than regulation by their examiner, simply because a credit union stated a desired minimum capital level greater than regulation. I am also deeply concerned that if this requirement is allowed, examination teams are going to force us to use other credit union's adequacy levels that are higher than ours. I do not understand how adding another layer that is subjective from credit union to credit union improves and simplifies our capital classification process.

Implementing a capital adequacy plan may not be what Congress intended under our current statute. The Federal Credit Union Act states greater than 7% is well capitalized and asks the Board to ensure that capital is adequate in the event 6% is not adequate. It is not asking for another layer to determine if a well capitalized credit union is well capitalized.

Finally, we are under incredible pressures to serve our members and the Board is asking to incorporate another methodology process that we are not presently doing. For the time we need to spend away from focusing on serving our members to develop this plan, reassess it periodically, and defend it; what if any is gained that NCUA can accomplish without it? Our industry's financial strength is proof that credit union boards and management teams, along with the examination process protects our members' capital. I fail to see any merit in having a credit union develop their capital adequacy plan as part of RBC.

Risk Weight Considerations

Corporate Credit Union Perpetual capital has been reduced from 200% to 150%; it should be reduced to 50%. The Board has issued a new Corporate Regulation that has significantly reduced the risk in corporate credit unions. Banks can have investments in various obligations that are 20% risk weight to 100% risk weight based on ratings of AAA, A, BBB, they also are 100% risk weighted for investments in companies. Given that Corporate Credit Unions are regulated by this Board it would seem that an investment into a corporate credit union is not near as risky as an investment in a company or a BBB bond. This is why a risk weight of 50% seems appropriate.

Interest Rate Risk

Interest rate risk should not be part of PCA. NEV, IRR modeling is very subjective and more of an art than a science. NEV and IRR are results based on several assumptions and assumptions are not uniform. There are several occasions where we have reviewed results on our balance sheet with very different NEV and IRR results because of assumption changes. Recently we reviewed results that varied quite significantly on our balance sheet from two different models. Which models and assumptions are correct? This creates too wide of a spectrum for a formula that generates a hard number result for capital adequacy.

Capital adequacy is a buffer for an asset that is easily quantified. Setting capital aside on mortgages outstanding, auto loans outstanding are hard numbers to a risk weight, and losses on mortgages and auto loans are regular events that capital covers. NEV is theoretical. We carry more interest rate risk than many credit unions and we have never had to set aside a loss due to our NEV and IRR position.

Last year I shared where we were too short and conservative with our cash/investments in 2012. Our NEV and IRR results were fine but our short position caused an earnings challenge in 2013. We addressed this challenge with duration. Our NEV and IRR exposure increased in several key ALM measurement areas, we were above our policy threshold in a couple, and in others we were near maximum. We reviewed our fundamentals and risk assessment prior to this strategy and were comfortable with taking on this elevated exposure to improve our nim.

The examination process earmarked our higher IRR position which warranted a higher review of our ALM policies, strategies and risk monitoring. We were able to provide confidence that we are managing our IRR exposure. If there was an NEV and or IRR regulatory benchmark that downgraded our capital adequacy the open minded approach we received from your examination team would not have occurred. I am certain our exam and DOR would have not allowed the flexibility it did. Should a change in formula change whether we should have been afforded this opportunity? I hope the answer is no.

The bottom line is we have a system in place to monitor and mitigate interest rate risk without adding another layer to the capital adequacy component.

Summary

Our board of directors' work very hard with my management team to generate earnings so that we are financially sound, maintain sufficient capital to be a viable credit union for our members. I am conflicted about the need for this proposal when the facts show credit unions are operating soundly under the current law. However, I recognize why the Board is considering implementing a risk based framework and I appreciate the Board's efforts in improving RBC 2. If the Board decides to move forward with proposal then I hope the Board considers my recommendations:

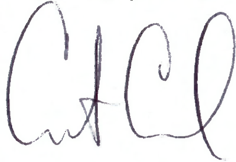
1. Incorporate a list of assets and liabilities that define a complex credit union.
2. Amend the risk weights outlined in my letter.
3. Do not incorporate a capital adequacy plan requirement
4. Do not include an IRR provision for RBC

I would like to reiterate that my chief concern is to allow credit unions that currently manage their capital efficiently in serving their members, to continue to do so. We may be financial institutions but our true assets are the people we serve; this is what separates us from the banks.

Our members use us as an alternative to the banking system because we bring them value. Those of us that remain are doing that in a sound manner under very difficult circumstances. Any new framework should balance a process of determining adequate capital and allow us to continue to compete so we can help our members.

I want to thank the Board again for the opportunity to comment on their Prompt Corrective Action - Risk Based Capital 2 proposal.

Very truly yours,



Curt Cecala, CEO