Suncoast Credit Union

April 27, 2015

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

Re: Proposed Rule – Risk Based Capital | NCUA-2015-0011-0001; RIN 3133-AD77

Dear Mr. Poliquin:

I am writing on behalf of Suncoast Credit Union (Suncoast), a not-for-profit, cooperative financial institution that serves over 640,000 members along the west coast of Florida. We are a federally insured state-chartered credit union with 58 branches and $6.3 billion in assets. We appreciate the opportunity to comment on the National Credit Union Administration (NCUA) Board's second Proposed Rule – Risk-Based Capital (RBC).

We are encouraged by the changes the NCUA has made to their first proposal to revise and replace the prompt corrective action (PCA) rules. However, we still oppose the updated proposal and have listed our primary concerns below. We have also commented on interest rate risk and secondary capital as requested.

An RBC rule is not necessary

The natural person credit union industry survived the severe financial crisis with a well-funded share insurance fund and the industry has recovered without the need of RBC requirements. As demonstrated in Suncoast's case study in our original comment letter, the added regulatory layer of an RBC ratio did not prove to be an earlier warning indicator than the existing PCA rules. Nor is their evidence that this proposed rule would add value above and beyond the existing PCA rules in establishing a safer credit union system. **We remain strong in our position that we do not support a two-tiered capital system.**

Definition of 'complex' credit union

We do not agree that asset size alone should be used to define a 'complex' credit union. We ask that NCUA follow instructions from Congress and also include portfolios of assets and liabilities in their determination. This process would ensure that the only credit unions covered are those with activities that pose extraordinary risk, beyond routine loans and investments.

As a solution, we propose that the proposed Risk Based Capital not be implemented as a second tier capital requirement. Instead, the RBC requirement can be used to determine whether a credit union is 'complex'. Those credit unions with an RBC ratio less than 10% would be considered 'outliers' which would require greater scrutiny as part of the supervisory and examination process. This would address the directive of Congress to consider the portfolio of assets and liabilities of credit unions. Using RBC to determine 'complex' classification also helps NCUA allocate resources to potentially higher risk credit unions. **The RBC ratio should be employed as a tool to be used by examiners, not as a requirement to determine category of capital classification.**

Maintaining a Capital Adequacy Plan

Under the existing definition of 'complex', we oppose the requirement that complex credit unions maintain a capital adequacy plan to assess the sufficiency of their capital on an ongoing basis and provide this to examiners. This provides them considerable latitude to determine whether a credit union needs more capital even if it is well-capitalized. If NCUA examiners have concerns regarding the credit unions they supervise, those situations should be addressed individually and not through broad rulemaking.

Investments

We recognize and appreciate several changes made to the investment risk weights. There are still a few issues that need additional consideration including: (1) Mutual Funds, (2) Charitable Donation Accounts, and (3) CUSO Investments.

(1) 703 Compliant Mutual Funds – The proposal allows for a full look-through approach, but requires a minimum risk weight of 20%. This minimum risk weight is required even if a majority of the underlying assets are invested in investments that qualify for a 0% risk weight. Credit unions typically invest in mutual funds due to their lack of resources to directly invest and constantly manage their investment portfolio. This provision unfairly penalizes credit unions for investing in low-risk, liquid mutual funds. **We recommend that 703 compliant mutual funds should allow the full look-through approach using risk weights relative to their holdings ranging from 0% to 20%.**

(2) Charitable Donation Account (CDA) – Investments in CDAs have recently been approved and limited by the NCUA. Since the amount that can be invested is already limited by regulation, an RBC requirement is an added layer of limitation that discourages credit unions from investing in CDAs. **We ask that the NCUA embrace these investments that support charitable goals and purposes by reducing the risk weight to 100% or less.**

(3) CUSO Investments – The amount a credit union can invest in a CUSO is already limited by NCUA Rule 712.4. Requiring 150% risk weight for CUSO investments is an added layer of regulatory burden that discourages the collaboration in the credit union industry that CUSOs are generally formed to provide. **We recommend the risk weight for investment in CUSOs be reduced to 100%.**

Interest Rate Risk (IRR)

Similar to our recommendation to use RBC as an examination tool instead of an additional required capital requirement, we believe the same approach should be considered with IRR. Through examination checklists and questionnaires, the NCUA can identify severe outliers and concentrate on them individually. This reduces the unnecessary regulatory burden on the overwhelming majority of credit unions that do not have significant IRR. The recent final rule issued by the NCUA on IRR already addresses adequate requirements for all credit unions. **We oppose any one-size-fits-all approach that would subject credit unions to layers of new IRR regulation disproportionately to their exposure to IRR.**

Secondary Capital

Credit unions remain the only financial institutions that do not have access to sources of capital beyond retained earnings. In consideration of credit unions' unique capital structure and the proposed new RBC requirement, supplemental capital should be added into the RBC numerator. Supplemental capital can be used to protect the NCUSIF by adding another layer of capital that is treated as subordinated debt. The supplemental capital structures need to have enough flexibility to be competitive in order to be cost effective, while still adding that layer of protection. **We strongly recommend NCUA to add supplemental capital into the numerator of the RBC ratio.**

We appreciate the NCUA listening to Suncoast and the countless other credit unions that weighed in on the original proposal. Even with the changes made, we still do not support a two-tiered capital system. **The optimal outcome would be an RBC system for credit unions that would reflect lower capital requirements for lower-risk credit unions and higher capital requirements for higher-risk credit unions. Since the NCUA does not have the authority to accomplish this optimal solution without congressional action, we understand this RBC proposal is a step in that direction. As a solution, we suggest that using RBC as a way to identify a credit union as complex will focus the NCUA's efforts on the few outlier credit unions, providing regulatory relief for the overwhelming majority of credit unions that do not pose a risk to the NCUSIF.**

We encourage the NCUA to continue to work with credit unions to modernize the current PCA requirements without adding unnecessary layers of regulatory burden. Rather, the modernization should strengthen the credit union industry by creating new opportunities for credit unions to thrive and remain relevant to their members.

Again, thank you for the opportunity to comment on this important matter.

Sincerely,

Julie Renderos, CPA
Executive Vice President/Chief Financial Officer