TROPICAL FINANCIAL CREDIT UNION™

March 26, 2015

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

Mr. Poliquin,

On behalf of Tropical Financial Credit Union, a $560 million asset state chartered and federally insured credit union headquartered in Miramar Florida, we appreciate the opportunity to comment on the recently newly revised Risk Based Capital proposal (RBC2). We are pleased to see that many of the concerns we expressed regarding last year's proposal were addressed in this revised proposal including;

- The removal of interest rate risk measures,
- The recalibration of risk weights,
- Inclusion of 100% of the loan loss allowance balances,
- Reduction of the RBC "well capitalized" threshold to 10%,
- An extended implementation timeframe, and;
- Increasing the credit union asset size threshold to $100 million.

However, we do have a few remaining concerns which we would like to address.

*Goodwill*

We remain very concerned about the deduction of "*Goodwill*" from capital. We believe deducting Goodwill from capital will have a material adverse effect of any merger considerations. If two credit unions merged, each with 15% risk based capital before the merger; the resulting institution may have only 7.5% post-merger risk capital. This could result in a high number of liquidations instead of mergers and create an unnecessarily bad image for credit unions among the public and Congress.

Goodwill should not be immediately deducted from the numerator of the risk-based capital ratio. If deducted, the deduction should be phased out over a ten-year period. Further, goodwill arising from previous supervisory mergers should be grandfathered and allowed to be counted as risk-based capital without a time limit so long as it meets GAAP requirements.

Main Office – 3050 Corporate Way, Miramar, FL 33025 • P.O. Box 829517, Pembroke Pines, FL 33082-9917
Tel: 305-261-8328 • 888-261-8328 from all other areas • www.tropicalfcu.org

*Capital Adequacy*
The new proposal adds a requirement that a "complex" credit union maintains capital commensurate with the level and nature of all its risks, and has a process to determine its capital adequacy in light of its risk, as well as develop a comprehensive written strategy to maintain "an appropriate level of capital."

We strongly oppose the capital adequacy plan requirements. Strategic capital planning is very important for credit unions, and each credit union's long-term desired capital ratio will depend on the credit union's own assessment of the risks it faces, and it's tolerance for risk. Such a plan should not be the subject of examination and supervision, and the goals a credit union establishes for its own capital sufficiency should not become targets or standards in an examination.

*Risk Weights*
While there were many changes to the risk weighting of several asset classes, there are two areas we believe have excessive weights. The risk weights for CUSO investments and mortgage servicing rights remain too high and could affect a credit unions' ability to own and operate CUSOs and hold mortgage servicing rights. We believe both CUSO investments and mortgage servicing rights should carry 100% risk weights.

*Interest Rate Risk*
While interest rate risk was removed from the proposal, NCUA did express that it intends to issue a separate rule that would apply a minimum quantitative measure of interest rate risk using some common measurement framework. The NCUA already has rules regarding asset liability management and we are opposed to an additional rule. Further, the adoption of a common framework is troublesome. There are many ways to evaluate interest rate risk and selecting just one in a fixed rule would unnecessarily restrain credit union risk-management. If NCUA feels that additional interest rate risk steps are needed, they should be addressed in the regulatory, examination, and supervision process.

In summary, we believe many of the modifications made in this second risk based capital proposal were constructive. However, there are a few additional items we believe would eliminate the adverse consequences that the rule would create.

Thank you for the opportunity to comment on this important rule and we look forward to an ongoing dialogue to find a suitable solution to measuring the adequacy of a credit unions capital.

Sincerely,

Richard Helber
President/CEO