April 27, 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 2

Dear Mr. Poliquin:

Orlando Federal Credit Union serves 25,000 Member-Owners in the Metro Orlando area with Assets totaling $200 million. The Credit Union appreciates the opportunity to comment on the second proposal to revise Prompt Corrective Action related to Risk-Based Capital. The Credit Union would first like to thank the NCUA for improving the risk weights from the original RBC proposal and for lowering the RBC requirement for well-capitalized credit unions from 10.5% to 10.0%.

The Credit Union is questioning NCUA's legal authority to establish a separate Risked-Based Net Worth requirement for well-capitalized and adequately capitalized Credit Unions is permissible under the Federal Credit Union Act Section 216(d) as pointed out by NCUA Board member J. Mark McWatters. There is no evidence that risk based capital requirements, utilized by the banking regulators, work any better than the net worth requirements currently imposed by the NCUA. Banks have had risk-based capital requirements for many years and these requirements neither prevented the latest crisis nor stopped significant failures in the banking system.

The Credit Union industry emerged from the recession with a strong financial condition despite the burden to recapitalize the NCUSIF. Most Credit Union failures, including the Corporate Credit Unions, were the result of high concentration levels in risky loans and investments that the majority of the credit unions made the management decision not to lend or invest in this type of business.

If the NCUA must move forward with this rule, the following are the comments that Orlando Federal Credit Union is requesting that NCUA consider in for the final RBC proposal.

Capital Adequacy Assessment

The examiners' expertise in reviewing the capital adequacy assessment during the exam process and determining a credit union's capitalization classification or the authority to require additional capital during an exam is a concern. If each Credit Union is required to quantify its unique risks and to maintain adequate capital to support those risks, all of which is to be supported by a written strategy, then why impose standard measures that ignore those unique risks and complexities? A $100 million asset Credit Union will have a far different risk profile than a $1 billion asset Credit Union. Under the new definition, both size Credit Unions are defined as complex. In addition, adding an interest rate risk measure to the proposed rule may result in a one-size-fits-all method that may standardize assumptions and approaches so unique risks of an individual credit union will not be captured.

Our Credit Union management may be forced to make decisions and manage by the items that will ensure the Credit Union passes regulatory tests, and may cause an oversight in identifying and managing the true risks.

Investments in CUSOs risk weighted at 100 % instead of 150% under the Proposed Rule.

A credit union's exposure is limited to its investment in the CUSO. Currently, NCUA Rule 712.4 limits a Credit Union's investment in CUSOs. It is not necessary to impose a 150% risk weighting on CUSO investments. CUSO relationships are a way to consolidate functions in an effort to reduce operating expenses and to offset declining net interest income and non-interest income levels.

Mortgage servicing rights risk weighting at 250% is excessive.

Mortgage servicing rights are recorded in accordance with Generally Accepted Accounting Principles and pose minimal risk to the balance sheet. The 250% weight is likely to produce several undesirable outcomes as it may cause Credit Unions to incur more interest rate risk by booking long-term loans that otherwise would be sold. Other Credit Unions may opt to discontinue offering the longer-term mortgage products. Selling mortgages allows Credit Unions to provide mortgage products to members while at the same time eliminating interest rate risk from the balance sheet, which is a main concern of NCUA.

Ability to raise supplemental capital.

Credit Unions remain the only financial institutions that do not have access to sources of capital beyond retained earnings. If higher capital standards are to be imposed on the credit union industry under the Proposed Rule, affording credit unions the ability to raise supplemental capital that counts towards the net worth requirements would be appropriate.

NCUSIF deposit included 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.

Remove the January 2005 expiration date for goodwill resulting from a supervisory merger into the RBC calculation.

Occasionally, NCUA will ask a Credit Union to consider a supervisory merger in an effort to protect the insurance fund. Eliminating the provision in 2025 could negatively impact the acquiring credit union’s decision to execute a supervisory merger if goodwill is not permissible in the RBC calculation.

This Proposed Risk Based Capital Rule will increase costs to our Members-Owners, expand the right of the NCUA to interfere in the governance of credit unions through Prompt Corrective Action and threaten the financial stability of the industry in the long term. The Rule focuses on a regulator's model designed to identify risks and not the Member-Owners needs and has the potential to override the Board of Directors and Management's judgments on business strategy and risk. This may cause the Credit Union to be subjected to the examiner’s rule based decisions and not long term strategies that are in the Credit Union’s best interest.

The Proposed Rule, in its current form, will most likely reduce the risks to the NCUSIF but at a significant cost to all Credit Unions and their Members-Owners by higher loan rates, higher fees and lower deposit rates, higher operational and compliance costs and increased complexity of preparing the 5300 Call Report.

In addition, the Credit Union’s leaders will be forced to re-invent the cooperative business model and making the Credit Union less competitive with other financial institutions in serving our Member-Owners.

Thank you for the opportunity to comment on the proposed rule and considering my Credit Union’s concerns.

Sincerely,

Suzanne Weinstein

Chief Financial Officer
Orlando Federal Credit Union