4/25/15

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

Delivered Electronically

RE: Comment to the Second Proposed Prompt Corrective Action – Risk Based Capital (RBC) Regulation

Dear Mr. Poliquin:

TwinStar Credit Union appreciates the opportunity to officially comment on the NCUA's recently proposed Risk Based Capital rule. TwinStar Credit Union is a state chartered, federally insured credit union headquartered in Olympia, WA serving over 110,000 members across 22 branches with $960M in assets.

General Comments:

We believe that the revised RBC proposal is an improvement on the original, and would like to express our appreciation to the NCUA for listening to the concerns raised during the comment period and responding accordingly. While the proposed rule has made positive strides, we still believe there are several flaws within it that require the NCUA's attention.

Our credit union board and management team are making numerous decisions about the composition of our balance sheet and capital adequacy based on the needs of our unique membership and local communities. These factors do not just take into consideration the asset types, but include the reasons for why our charter exists to begin with, the corresponding funding from liabilities and the unique economic needs of the communities we serve. These decisions are driven by diverse business priorities, pricing and growth objectives as well as responses to unique local needs. We believe our decisions have resulted in strategies which enhance the overall soundness of our balance sheet, rather than taking a single, one-size-fits-all approach to risk management.

The revised RBC rule penalizes credit unions for specific activities such as real estate lending, member business lending, and Credit Union Service Organizations (CUSOs) by placing a capital tax on these activities. We believe the end result will be thousands of homogenous balance sheets that can be easily understood from an examination perspective. However, this approach will also lead credit unions to shy away from serving the very groups and communities we were chartered to serve. This rule will force industry wide concentrations that could be impacted by similar economic variables. In and of itself, this rule creates more risk than it proposes to control.

Specific Concerns:

Multi-owned CUSO Risk Weightings

While we acknowledge and appreciate many improvements in the risk weightings from the original RBC proposal, including reducing the risk weighting on wholly owned CUSOs to 100%, we remain concerned with a 150% risk weighting on CUSOs that are owned by several credit unions. The CUSOs that are owned by more than one credit union are providing much needed economies of scale, helping to obtain levels of expertise that any individual credit union could not afford or obtain on their own, while helping to share/spread risk and lower costs. Assigning an unjustifiably high risk weighting to these multi-credit union owned CUSOs, which are important collaborative tools for our industry, is not reflective of the actual systemic risk CUSOs pose. Based on 2014 data, federally insured credit unions in total have only 17 basis points of their assets invested in CUSOs, and this number includes the fully consolidated CUSO investments. Clearly, CUSO investment is not a systemic risk to the NCUSIF.

TwinStar Credit Union has an ownership position in multiple CUSOs, both wholly owned and multi-owned. These CUSOs give our credit union access to indirect lending, debit/credit processing, risk management, vendor management, group health insurance, and many other services at costs well below what we could obtain in the marketplace on our own. Better yet, we are able to share those costs and that accessibility with smaller credit unions that would not be able to participate at all.

We would argue that multiple owner CUSOs are less risky, in general, because the influence from any one owner is lessened. We would also suggest that the activities of each CUSO are diverse: A CUSO that acts as the central point for negotiating group rates on medical insurance does not carry the same risk profile as one that originates MBLs; therefore, applying a one-size-fits-all philosophy for risk weighting doesn't work in this particular area.

As a matter of policy, NCUA should be encouraging collaborative CUSO investment, not discouraging it with an unjustifiable 150% risk weighting. We encourage the NCUA to reduce the CUSO risk weighting to 100% for all CUSO investment.

Loan/Investment Risk Weightings

Many of the improvements from the original proposed rule to this current rule were in the changes made to loan/investment risk weightings. For example, the removal of weighted average life components for investments and the concentration escalation on real estate and member business loans were both positive changes. Unfortunately, some of the risk weights are still too high in the current proposal, given the overall level of risk in credit unions and how these risk weights are compared with banks.

To illustrate, first lien residential mortgage loans and commercial loans are both higher for credit unions when compared to banks. Credit union risk weights should be adjusted downward to levels that are no higher than those in place for banks, as credit unions certainly do not have higher levels of risk associated with holding these assets. Beyond the comparison with bank risk weightings, there are other factors affecting credit risk that aren't considered. For example, the rule does not take into account loans that are held in our portfolio but are written to secondary market standards and can be easily sold. It also does not include any provision for lower loan-to-value assets, which carry less risk of loss, and both of these factors are mitigation against credit risk.   We recommend that the NCUA revise their risk weightings to account for these items.

Supplemental Capital

We strongly encourage the NCUA to consider the use of supplemental capital for any complex federally insured credit union to meet its RBC requirements. We acknowledge and understand that without a change in federal law most credit unions cannot include supplemental capital in their net worth. Regardless, there is nothing that prevents NCUA from including supplemental capital in the numerator of the risk-based capital ratio. We believe that since NCUA has this ability currently, and the numerator already includes items that are not part of net worth, that this provision should be added to the proposed RBC rule.

Thank you for the opportunity to comment on this important proposed regulation, one that will have a significant impact on the credit union movement for generations to come. We appreciate the number of changes already made by the NCUA during the rulemaking process.   We also urge the NCUA to make the necessary improvements to this proposed rule, so that credit unions may continue to serve our members and communities in the way we are uniquely designed to do so.

Sincerely,

Jeff Kennedy
CEO
TwinStar Credit Union