



March 12, 2014

Mr. Gerard Poliquin
Secretary to the NCUA Board
1775 Duke Street
Alexandria, VA 22314

Dear Mr. Poliquin:

On behalf of Montauk Credit Union, please accept this comment letter as it relates to the NCUA's recent risk based capital proposal. This is a very important proposed regulation and one that will have a dramatic impact on Montauk Credit Union. We are appreciative of the opportunity to present NCUA with our concerns about this proposal.

Montauk Credit Union is a safe, sound and well-capitalized credit union with 11.94% net worth as a percentage of total assets as of December 31, 2013. We are a New York State chartered, federally insured credit union for the purpose of providing primarily taxi medallion business loans to our field of membership – which consists of those actively involved in the taxi business, particularly in New York, Chicago and Philadelphia, and their family members. This niche business model has served our credit union well for over 40 years and has improved the lives of thousands of underserved members, the majority of which are legal immigrants to the United States, by enabling them to have a livelihood and establish credit in the nation of their choice to reside.

One of the reasons our business model has been so successful at Montauk is that our historical familiarity with and knowledge of the taxi medallion lending business is virtually unmatched in the financial services industry. Montauk, along with a handful of other specialized credit unions, is recognized nationwide as the "go to" source for taxi medallion lending.

Over the course of the past 40 years, the credit union has never suffered a loss in a taxi medallion related loan, and is proud to state we have never written off a single penny of principal in any taxi related loan, in the cities we serve. We have built our solid financial strength on the quality of our service to our membership and the expertise with which we have underwritten these loans to thousands of members who would otherwise have limited, if any, hopes of gainful employment at the level driving their own taxi provides them to achieve the American dream.

Member Savings Federally Insured to \$250,000 by the NCUA

Mr. Gerard Poliquin

March 12, 2014

Page two

Unfortunately, the risk-based capital proposal recently enacted by the NCUA Board has the potential (unless modified before it is made final) to adversely impact both the long term ability of our credit union to continue to build on our already strong capital position and the ability of thousands more underserved members to get a taxi medallion loan that will open the doors of opportunity for them and their families.

We would like to explain why we feel the current proposal will have an adverse impact on our credit union and its members, as well as offer potential improvements to the final rule that could mitigate that impact.

First, we would like to state for the record that Montauk Credit Union supports the concept of credit unions having a risk-based capital structure. Currently, Montauk Credit Union undergoes a quarterly risk weighted net worth calculation on the call report that we feel is a fair determination of risk capital. In our view, if structured properly, it would be preferable to the one-size-fits-all net worth formula outlined in the Credit Union Membership Access Act of 1998 and the subsequent Prompt Corrective Action regulations implementing that statute. Therefore, please accept our position as one favoring risk-based capital and commending NCUA for taking the initiative to build a more flexible capital structure for credit unions.

That having been said, however, the formula incorporated into the proposed regulation is not well thought out. In fact, it is -- in our view -- arbitrary and patently unfair to credit unions chartered historically for the purpose of making business loans. It will be particularly punitive to credit unions that offer taxi medallion loans, as do we, or agricultural farm loans, as do a number of Midwestern credit unions, and credit unions that finance faith based organizations.

The history of a credit union should matter in calculating the necessary capital to correspond to the risk on the balance sheet. So should the historical performance of the credit union with decades of experience underwriting, funding and collecting business loans.

At Montauk, for example, the current risk weighting for business loans under the NCUA proposal would require us to sell approximately \$30 million in performing taxi medallion loans and make no more until either our deposits increase dramatically or existing loans pay down. This would be counter-productive for our credit union, its members and NCUA as well.

Rather than having that \$30 million earning at a margin averaging 5.25 percent (and remember that Montauk's losses in its taxi medallion loan portfolio is zero), in order to meet the 10.50% risk-based capital requirement to be considered well capitalized in the proposed rule we would be forced to either invest that \$30 million into overnight money market deposits at approximately

Mr. Gerard Poliquin
March 12, 2014
Page three

35 basis points or turn those dollars into personal loans without the security of the taxi medallion.

In other words, for our 11.94% net worth credit union to comply with the capitalization requirements of this proposed regulation, Montauk would need to get rid of \$30 million in performing assets, deny our members the additional lending needed to obtain or keep their lifeblood through their taxi medallions and accept instead the minimal return of overnight deposits or the increased risk of personal less-secured financing. And all in the name of building more capital above and beyond the 11.96% percent net worth already in reserve well beyond the statutory ratio of 7% to be considered well capitalized by law and current regulation. To us, this does not make sense from either our perspective or, frankly, yours as our source of deposit insurance through the NCUSIF.

In fact, we see the weighting structure in the proposed regulation for business loans to be adding another poorly designed one-size-fits-all formula on top of the existing poorly designed one-size-fits-all structure. As proposed, the NCUA risk-based capital formula is arbitrarily discriminatory towards credit unions with a historical charter purpose to provide business loans for some of the most underserved and credit challenged Americans and legal US residents – taxi drivers, farmers and those in faith based credit unions.

Montauk would like to encourage NCUA to consider one or both of the following suggestions as ways to improve this otherwise solid concept of risk-based capital.

The best option would be to simply exempt credit unions chartered primarily for the purpose of making business loans (a recognized category under the Credit Union Membership Access Act of 1998 and exempted by statute from the member business lending cap) from the 1.50 and 2.00 risk weights under the Member Business Loan categories. For those credit unions chartered primarily for the purpose of making business loans, all business loans – other than those delinquent and weighted accordingly at 1.50 – should be weighted at 1.00. This would provide the most simple and, in our view, consistent treatment with the statutory recognition of this category of credit unions.

Should the agency desire another option either for a broader based category of credit unions or perhaps to incorporate the needed concept of recognizing the historical performance of loan classes as a factor in the risk weighting formula, there could be a .50 credit provided in each category of business lending if the credit union has had less than 1% charge offs in that category of lending over the past three year period. With this performance based credit addendum to the formula, a credit union with less than 1% average annual charge offs in business loans over the

Mr. Gerard Poliquin
March 12, 2014
Page four

past three years would be at .50 / 1.00 / 1.50 in the three risk-weight categories – rather than 1.00 / 1.50 / 2.00 as proposed.

The second option of a credit, versus the earlier option of an exemption, would be slightly more complex and not as beneficial for credit unions with a historical foundation of business lending; however, it is certainly an option that would be quite easy to calculate and incorporate into the formula from existing 5300 Call Report data. There would seem to be no practical reason why such a credit could not be considered as an earned mitigation against the very high (and, we believe, punitive) risk weights for business loans in the proposed regulation.

Either option would go a long way toward addressing what seems to be the single biggest flaw in the proposed formula, the lack of recognition by NCUA in the proposal of proven ability to effectively manage risk over a period of year in each category of asset.

While there are other areas that we would consider fairly arbitrary such as the seemingly excessive weighting of CUSO investments at 2.50 (again, regardless of the performance of the CUSO) and the weighting of corporate credit union PIC at 2.0 even under the new NCUA regulations that greatly enhance the required capital position of corporate credit unions, the position of Montauk is that the treatment of credit unions historically chartered to make business loans – many to the most credit challenged Americans, including legal immigrants – is by far the most problematic part of the regulation.

We respectfully encourage NCUA to seriously consider either the earlier referenced exemption option for credit unions historically chartered for the purpose of making business loans as recognized by Congress or, in the alternative, the performance-based credit option for credit unions with a large portfolio of business loans. This is particularly important for those of us with a proven history of doing so.

Montauk Credit Union is appreciative of the opportunity to comment on this proposed regulation. Please do not hesitate to let me know if I can be a source of further or supplemental information.

Sincerely,



*Louis Jimenez
Treasurer/CEO*