Granite State
Credit Union

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April 30, 2014

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

MAY05'14 PM 1:41 BOARD

Re: Comments on Proposed Rule: PCA – Risk-Based Capital; RIN 3133-AD77

Dear NCUA Board.

I am writing to comment on the proposed risk-based capital rule. I work for Granite State Credit Union (GSCU), headquartered in Manchester NH. We have approximately 33,000 members, with $328,000,000 in assets and 7 branches.

I applaud the NCUA for bringing a risk-based capital framework forward. That said, I think the proposed rule is an attempt to address too many moving parts at once and will hamper GSCU's greatest assets, flexibility and member service. I have significant concerns about the unintended consequences and the potential adverse impact that the heightened weightings will have on our ability to grow and service our members.

The best regulatory system is one that allows depository institutions the ability to be flexible and adapt to their particular geographic/economic environment in a way that promotes growth for both the members and the institution. Out of the bank failures of the 1990's came risk based capital. Over the years certain elements were refined to improve the regulation. The risk weights utilized by FDIC insured financial institutions have stood the test of time. The risk based capital program along with a highly trained field staff enable the bank regulator to properly oversee the institutions and allows the institutions the flexibility to tailor their business to the needs of their consumers. This is the model the NCUA should emulate.

My hope is that we avoid unintended consequences by implementing a similar rule. In addition, the NCUA should develop a more robust examination program and work directly with credit unions that need increased regulatory oversight. A more robust examination program would allow lower capital requirements enabling credit union's to leverage capital in the best interest of the membership.

GSCU has specific concerns with the heightened risk weights on real estate, investments, and the investment in a corporate credit union. Below are the details on our concerns.

Real Estate:

GSCU is a real estate lender with 64% of our loan portfolio in real estate. On the face this might appear to be a concentration issue, but when viewed through a set of risk metrics the portfolio passes with flying colors. Collateral values, FICO scores, average balances, geographic disbursement, three year charge off analysis all point to a solid well performing portfolio. GSCU does what credit unions are supposed to when lending member funds for member real estate loans, so why hamper our ability to continue doing what we do best? The increased capital requirements not only puts us at a competitive disadvantage it limits our ability to leverage capital for the benefit of the membership. There is no additional risk in our real estate loans greater than 25% of assets. Further, credit risk is quantified through the ALL calculation, which is verified by examiners and auditors.

The concentration risk penalty for first mortgage residential mortgage loans should be removed. The proper place for the identification of risk within a lending portfolio is through the on-site examination. Through a detailed review of the underpinnings of the loan portfolio, policies and procedures, and allowance methodology the examination team can attest to the overall quality of the loan portfolio. If an elevated level of risk is identified during the examination those risks can be dealt with at the examination with a risk mitigation strategy designed specifically for the credit union in question. This program would allow the remaining credit unions to continue with the well established programs they have in place.

Investments:

Since credit risk is essentially eliminated from GSCU's investment portfolio the remaining risk is interest rate risk. The management of interest rate risk is complex and requires the knowledge of many factors on both sides of the balance sheet. The investment portfolio is just one component of our asset liability management program and a small one at that. This is the only area where an asset is weighted based upon a perceived increase in risk due to fluctuations in interest rates. Credit unions that use the investment portfolio as a tool for long term interest risk scenarios will be punished with the increased capital requirements. Why would we want to have a scenario where in a rising rate environment the weighted average life of the investments will lengthen, causing the need for additional capital be put aside? In some isolated instances we could see a credit union capital rating deteriorate to the point of "Undercapitalized" solely due to a rise in interest rates and nothing else.

I am struck by the inconsistent treatment of similar assets, specifically the first mortgages. In the form of a direct loan a risk weight of 50% is proposed, while if in the form of a mortgage-backed security with an average life of 5-10 years a risk weight of 150% is assigned, even though credit risk is removed in the asset embedded in the mortgage-backed security.

The heightened risk weights will alter potentially sound investment strategies, add unnecessary complexities to interest rate risk strategies, reduce returns, and over leverage capital. The best way to measure interest rate risk is through the on-site examination program. The examination staff needs to be able to fully understand the complexities of the asset liability programs in place and determine its adequacy for each individual credit union. If weaknesses are identified the NCUA examination team can assist the credit union in developing mitigation strategies to address the deficiencies.

Investment in corporate credit union:

The 200% risk weight for an investment in the corporate credit union is difficult to understand. By what measure is this investment 200%? The NCUA has just completed a thorough overhaul of the entire corporate system, developed new standards, and improved examination programs and yet this investment has one of the highest risk weights. The simple conclusion is that the NCUA lacks confidence in the corporate system and does not want credit unions to invest in the system.

Conclusion:

The differing risk weights in the same asset categories between the NCUA proposal and other federally insured financial institutions places us at competitive disadvantage.

The over leveraging of capital has a direct negative impact on our ability to serve the membership. By lowering the capital requirements and putting a robust examination program in place that deals effectively with risks within a particular credit union we will all be better served.

GSCU has other areas of concern, but the three above, if unchanged, directly impact our ability to best serve our members. It is our hope that the NCUA develops a robust examination program that will allow the field examiners to work with credit unions in understanding how each credit union measures, monitors and mitigates the risk within the institution. Only this type of relationship will fully protect the insurance fund while allowing the credit union the required flexibility to ensure success for the credit union and its membership.

Sincerely,

Robert A. Fleury,
Executive Vice President/CFO