NuMARK
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May 20, 2014

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 RIN 3133-AD77

Dear Mr. Poliquin:

On behalf of NuMark Credit Union, we want to thank you and the board for giving credit unions the opportunity to comment on the Proposed Rule: PCA – Risk-Based Capital. NuMark Credit Union has assets of over $195 million and is very Well-Capitalized at 12.85% as of March 31, 2014. This proposed rule will not adversely affect NuMark Credit Union today; however this proposed rule will affect our ability to grow in the future.

Regarding the proposed rule, we will address the following issues that will have an impact on our member service and our ability to compete in our marketplace:

1. The proposed Risk-Based Capital Rule as presented will authorize the NCUA to require even higher capital on a case-by-case basis. This additional authority to impose even higher capital requirements on an individual credit union is very subjective and should not be part of the proposed rule. The capital rule should be uniform for all credit unions.

2. The NCUSIF Capitalization Deposit is subtracted from the numerator and denominator in the proposed Risk-Based Capital Rule. When subtracting the NCUSIF deposit in the numerator, it is a direct subtraction from Net Worth and is equivalent to writing off the deposit. We believe that this asset has future economic value and should not be subtracted from Net Worth.

3. The proposed rule arbitrarily weights concentrations in certain loans rather than focusing on the quality of underwriting standards and expertise. Member business loans and real estate concentration level risk-based capital increases do not consider portfolio management, underwriting standards, industry experience, quality of loans and the proposal could result in reduced overall diversification.

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4. The proposed Risk-Based Capital Rule is assigning a higher risk based on the term of the investment. Investments with a weighted average life greater than one year would have a reserve percentage of 50-200%. The proposed Risk-Based Capital Rule is penalizing credit unions that hold longer-term investments and are ignoring any reduced credit risk in the longer-term investment.

5. Risk weightings serve as a disincentive to continue or enter into member business loans, mortgage lending, and longer-term investments. This higher risk weighting will limit the ability of credit unions to compete with mortgage lenders and banks. Additionally, Credit Unions inherently are more conservative and the higher risk weighting on member business loans and mortgage lending will limit our ability to compete with banks and other lenders.

6. We do have some concerns about some specific Risk-Weighting Classifications:
    a. The risk-weight for cash on deposit at the Federal Reserve Bank should be 0%. Since the Federal Reserve is one of the NCUA designated sources for emergency liquidity, its safety and soundness should be similar to that of the government agencies.
    b. For securities, the 0% risk-weight for Treasuries and GNMA MBS, regardless of the weighted-average life, ignores any interest rate risk and is lower than the 20% risk-weight for cash on deposit at the Federal Reserve Bank.
    c. We disagree with applying the highest risk weighting of 250% to the value of Investments in CUSOs and Mortgage Servicing Rights. Having a partnership with a CUSO allows NuMark Credit Union to lend to our members without keeping a staff of highly qualified commercial lenders at our credit union. Also, this proposed rule excessively punishes the retention of mortgage servicing rights.
    d. The proposed Risk-Based Capital weightings require that second mortgages need a higher reserve percentage than first mortgages, but really the risk lies in the LTV. If we had a member with a LTV of 90% versus one with 20%, the probability of loss is vastly different assuming the same credit characteristics.

7. In order for NuMark Credit Union to revise our long-term Strategic Plan, substantially more time than the proposed 18 months is needed for the rule to be phased in. The short implementation period is inconsistent with Basel III's multi-year development and implementation.

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8. The proposal encourages taking on higher levels of credit risk at the expense of less risky assets, which could be a direct drain on capital if unanticipated losses occur.
    a. Delinquent real estate loans have less risk-based capital than similar real estate securities that have little/no credit risk
    b. Delinquent consumer loans have the same risk-based capital as an insured CD with a weighted average life of greater than five years, but less than or equal to ten years.

9. Credit Unions fared much better than banks in the recent recession, yet the level of reserves being requested from the proposed regulation is far in excess of Basel III. The excess capital will come at a cost to our members and the competitiveness of our industry.

10. The proposed Risk-Based Capital legislation will require Credit Unions to maintain higher levels of capital. The excess capital will require Credit Unions to generate more profit when this additional profit could be given back to the members in terms of better loan and deposit rates or Checking Dividends and Loan Rebates. In December 2012, NuMark Credit Union gave our membership a 5% Loan Interest Rebate and a 5% Checking Account Dividend.

Thank you for the opportunity to comment on the Proposed Rule on Risk-Based Capital. The most recent financial crisis has a vast amount of data to support the quality of the Credit Union Industry. Our industry has proven we could withstand the recent recession. The proposed legislation will come at a cost to our members and the competitiveness of our industry.

Sincerely,

Ann M. Dubie
President and CEO

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