DHCU Community CREDIT UNION

May 16, 2014

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

RE: PCA – Risk Based Capital

Dear Mr Poliquin:

On behalf of DHCU Community Credit Union, we thank you for the opportunity to comment on the Proposed Rule: PCA-Risk Based Capital. We believe in the need for NCUA to address deficiencies within the current risk based net worth approach and would encourage the agency to take a more diligent, long-term approach to improve the proposed rule. With the industry performing at very stable and high levels, now is the time to put appropriate risk level management in place, not those that will cause unintended long-term consequences.

As for the proposed rule, you will find our current positions below:

1. As an industry, Credit Unions fared far better than other financial institutions throughout the financial crisis, with NCUA absorbing far less loss to its share insurance funds than FDIC, yet the levels of capital being required of Credit Unions is in significant excess of other regulated financial institutions. As an industry, we are being asked to far and away exceed standards required within Basel III. **With the Great Recession behind us and the industry performing at high levels, why are we being asked to reserve at significantly higher levels than Basel III? This will significantly impact the competitiveness of the industry by requiring far excess capital standards at a significant cost to our membership.**
2. Many risk weighting categories seem to be imposing cuts to the credit union industry that will harm individual credit unions, the industry and ultimately our members and the communities in which they live. **To require Credit Unions to reserve 75-100% versus Basel III requirements of 50% for first mortgages above 25% of assets is excessive and will limit the ability of credit unions to compete with other mortgage lenders.** Throughout the prior financial crisis the credit union industry has proved to have much higher standards of performing loans. There seems to have **little to know consideration on Variable Rate versus Fixed Rate Mortgages or LTV stance of the asset. Why are Credit Unions being asked to reserve in significant excess of**

banks? This will cause significant limitations to our communities as we help finance mortgage opportunities for members.

3. Risk rating concerns also continue in terms of investments. Currently, there are significant restrictions on the types of investments that federal and state chartered credit unions are allowed to participate in. Essentially, most credit unions investments are 100% guaranteed by the federal government with the major exception being coporate credit unions. **The Rule should address and seperate the reserve requirement of credit risk free investments from those where the funds are at risk.**
4. Although today we are a credit union that has zero investments outside of a cash position, the requirements to reserve at levels of 50-200% versus Basel III at only 20% on investments greater than a year in duration is both short sighted and very dangerous to Credit Unions. This excessive requirement will significantly impact credit unions leaving the industry in an anti-competitive position and negatively impacting members. **This appears to address interest rate risk at a blanket level at a time when rates are historically low. As rates are cyclical in nature, what position will this put credit unions in when rates are artificially high and risk of a rapidly declining rate environment calls for longer term bracketing of investments?**
5. Although the proposed regulation on higher reserve allocations on second lien position mortgages attempts to address the risk associated with junior versus senior liens – **The requirement of allocation at 100-150% for credit unions compared to Basel III requirments of 50% will significantly impact the ability for credit unions to offer this product.** Much of this risk lies within the LTV of the junior position, with probability of loss skewed towards extremely high LTV junior liens. **This requirement will significantly impact credit unions and essentially drive business from Equity Loans to banks which offer many questionable guidelines and rates hurting both our members and the overall economy.**
6. Credit Unions have adopted a CUSO environment in order to pool resources to provide services within our member-first philosophy as well as obtain better pricing within a scaled environment. **The requirement of 250% for CUSO investments will leave non-CUSO providers of services to a credit union at a competitive advantage.** Many of these providers are focused on profit maximization and not the success of our industry or membership.
7. Credit Unions current MBL portfolio of lending remains much more conservative than competiting banks. Our required personal guarantees on most of our business loans already address a concern the banks do not have to follow. We are inherently more conservative and the requirement **to reserve 150-200% compared to the banking industry of 100% is extreme and will limit our ability to compete in the industry.**
8. The proposed risk ratings appear to be arbitrarily conceived at best and **it would be beneficial for credit unions to understand the statistical data used to support the increased risk-weights for the current risk calculations and how they reflect historical or future predictions of loss.**
9. The ability for examiners to require higher capital amounts for individual credit unions is not justified. **The capital rule should be uniform for all Credit Unions.**
10. The reserve percentages for delinquent loans appear to be excessive in nature. Again, **the proposed regulation causes credit unions to reserve at 150% versus banks at 100%. This is on top of the notion that credit unjions determine deliquency at 60 days versus 90 days for**

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banks. As an industry already conservative in addressing deliquency and the potential loss within the portfolio – **This again causes a major competitive advantage within our industry.**

Again, we do believe it is the appropriate time for the industry to begin dialogue to address risk based capital. However, the current rule would harm individual credit unions, the industry, our membership and ultimately the communities in which we serve. We do believe adequete capital is a necessity to manage and provide a cushion in both strong and weak economic climates. We believe the current proposal falls short of both adequetly facilitating capital and allowing the industry to flourish. As the industry has entered a time of change, in competitive levels as well as technological change – this proposal could cripple our industry and ultimately the value credit unions have proven to the American Economy throughout and after the recession.

Sincerly,

Matt McCombs

President & CEO

Cc: DHCU Board of Directors, DHCU LT Team Members

EMMC FEDERAL CREDIT UNION

Eastern Maine Medical Center Federal Credit Union

417 State Street, Suite 140, Bangor, Maine 04401, Tel. 207-973-7130 • 849 Stillwater Avenue, Bangor, Maine 04401, Tel. 207-945-3632

43 Whiting Hill Road, Brewer, Maine 04412, Tel. 207-973-5189 • Web Site: www.emmcfcu.org • Email: info@emmcfcu.org

May 19, 2014

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

RE: Risk Based-Capital Proposal

Dear Secretary Poliquin:

I am writing on behalf of EMMC Federal Credit Union, which serves employees and family members of EMMC and EMHS. We have 4,708 Members and $45,434,900 in assets. EMMC Federal Credit Union appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action - Risk-Based Capital.

Our credit union does not support NCUA implementing a more sophisticated risk-based capital framework, nor do we support NCUA's proposed risk based capital regulation. EMMC Federal Credit Union supports the current risk based net worth formula. We do not feel that NCUA has adequately justified the need for the rule. We also believe that more credit unions than NCUA has indicated would be impacted as their net worth would fall to just barely over well-capitalized or adequately capitalized levels. A number of risk weightings, especially for MBLs and mortgage concentrations do not appear to be properly calibrated for credit unions.

It is our opinion that concentration risk should be guarded against, in the risk-based capital framework. Our credit union also feels that real estate and member business loans' weightings should not have different risk weights based on whether they are current or delinquent. We do have corporate perpetual capital, and we do not agree with the risk weighting of 200 percent for corporate perpetual capital because corporate credit union perpetual capital is not inherently risky. With regards to NCUA's proposal to assign a risk weighting of 150 percent for investments with a weighted-average life between 5-10 years, and 200 percent for those over 10 years, we disagree with these proposed weightings. Finally, although we do not have CUSO investments, we do not agree with the risk weighting of 250 percent of the investments in CUSOs. If applied, this weighting would require us to change our relationship with our CUSO.

We also believe that any risk-based capital framework should include the ability for all credit unions, not just low-income, to have access to supplemental capital.

In closing, I would like to once again reiterate that EMMC Federal Credit Union does not support NCUA's proposed risk based capital regulation because we believe it is not adequately justified; it would adversely affect capital requirements; and the risk weightings proposed do not seem appropriate.

Thank you for the opportunity to comment on this proposed rule and for considering our views on risk based capital requirements.

Sincerely,

Ralph Ferland
President/CEO