



25 Rykowski Lane
Middletown, NY 10941
Tel: 845.561.5607
Fax: 845.326.1515
www.HHFCU.org

MAY 28 '14 AM 11:16 BOARD

May 23, 2014

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

RE: Comment Letter for Prompt Corrective Action – Risk Based Capital Proposal

Mr. Poliquin,

Thank you for the opportunity to comment on the proposed Prompt Corrective Action - Risk Based Capital rule. I am writing on behalf of Hudson Heritage Federal Credit Union. We serve over 30,000 members and have just over \$300 million in assets. We have carefully reviewed this new proposal and we have outlined our comments and concerns below for your review and consideration.

We agree that our credit union and all others should maintain adequate capital to readily support the aggregate risk profile and strategies for each credit union. However, the current proposal as written attempts to have all credit unions fit into an arbitrary “risk” box with a set of standardized measures which are un-vetted, unproven and lack disclosure of the rationale utilized to support said measures. Without the aforementioned, it is difficult to understand how the proposed risk-weightings were selected.

The current “one size fits all” proposal would severely penalize credit unions without regard to the presence of sound management, underwriting and risk management practices. Not unlike many other credits unions nationwide, we are a strong real estate lending institution that fully understands, closely monitors and manages our real estate loan portfolio to account for credit, asset, interest rate and liquidity risks. The rule as currently written unjustly penalizes those credit unions that have made sound real estate lending decisions to support their membership. The proposed rule would severely restrict our future real estate lending business which in turn would have future revenue and capital accumulation implications.

Depending on concentrations of these assets, under the proposal, a 30 year fixed mortgage could be weighted at 50%, while a variable rate home equity product could receive a weighting as high as 150%. A variable rate product offers significantly stronger protections from interest rate risk and therefore mitigates the impact to earnings in the long term. The seemingly random selection of weightings in this area of the proposal are both perplexing and difficult to rationalize. The history of a credit union should be taken into account when calculating the necessary capital to correspond to the risks on its’ balance sheet.



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We have also analyzed our balance sheet under BASEL III thresholds (see attached). As you can see by the attached balance sheet simulation, our credit union's Risk Based Capital ratio significantly improves under BASEL III by more than 400 basis points over the current NCUA proposed weightings. We are unsure why BASEL III was not selected as a basis for implementing a credit union system-wide risk based capital program; we believe that further analysis using BASEL III weightings should be considered.

Lastly, the most concerning issue in the proposal is the provision which provides the ability for the NCUA to impose even higher capital requirements on individual credit unions as it deems necessary. This part of the proposal is unclear and needs further clarification and vetting.

To foster growth and future viability in the credit union industry, we respectfully encourage the NCUA Board to re-evaluate the risk based capital proposal as presented. It does not make sense to hold credit unions to a more stringent, growth suppressing set of guidelines that was developed under BASEL III.

We are appreciative of the opportunity to comment on this important proposed regulatory rule. We welcome any opportunity to be an additional resource to the agency as you move towards amending and finalizing this rule.

Respectfully Submitted,

A handwritten signature in blue ink that reads "Michael J. Ciriello". The signature is written in a cursive style.

Michael J. Ciriello
President/CEO

RISK-BASED CAPITAL SIMULATOR

Make sure to read the instructions before using

SCENARIO: BASEL III Simulation on HHFCU Q1 2014 Balance Sheet

CU Name: Hudson Heritage FCU

State: NY

Base Case Risk-Based Capital	16.63%
Simulated Risk-Based Capital	16.63%

INPUTS FROM NCUA CALCULATOR:

	Base Case	Simulated Case
1 ASSETS (\$):	\$303,082,859	\$303,082,859
2 NET WORTH (RATIO) (%):	10.04%	10.04%
3 RISK BASED CAPITAL RATIO (%):	16.63%	16.63%
4 NUMERATOR (\$):	\$29,437,694	\$29,437,694
5 DENOMINATOR (\$):	\$176,971,973	\$176,971,973

NUMERATOR CALCULATIONS

	Current Dollar Amount	Current Percent of Total Assets				Future Percent of Total Assets	Future Dollar Amount
8 + Undivided earnings	\$27,008,973	8.9%				8.9%	\$27,008,973
9 + Regular reserves	\$2,011,314	0.7%				0.7%	\$2,011,314
10 + Appropriations for non-conforming investments	\$0	0.0%				0.0%	\$0
11 + Other reserves	\$0	0.0%				0.0%	\$0
12 + Equity acquired in merger	\$1,399,213	0.5%				0.5%	\$1,399,213
13 + Net income	\$0	0.0%				0.0%	\$0
14 + Subordinated debt included in net worth	\$0	0.0%				0.0%	\$0
= NET WORTH	\$30,419,500						\$30,419,500
14 + Allowance for loan & lease losses	\$1,670,772	0.6%				0.6%	\$1,670,772
15 - Goodwill	\$0	0.0%				0.0%	\$0
16 - Identifiable intangible assets	\$0	0.0%				0.0%	\$0
17 - National Credit Union Share Insurance Fund	-\$2,652,578	-0.9%				-0.9%	-\$2,652,578
= RBC NUMERATOR	\$29,437,694						\$29,437,694

DENOMINATOR CALCULATIONS

	Current Dollar Amount	Current Percent of Total Assets	BASEL Risk Weights	Current Risk Weighted Dollar Amount	Future Dollar Amount	Future Percent of Total Assets	Future Risk Weighted Dollar Amount
CASH							
18 Cash on hand	\$2,888,224	1.0%	0%	\$0	\$2,888,224	1.0%	\$0
INVESTMENTS							
19 Investements: WAL < 1 year	\$19,112,914	6.3%	20%	\$3,822,583	\$19,112,914	6.3%	\$3,822,583
20 Investments: WAL 1-3 years	\$14,313,485	4.7%	20%	\$2,862,697	\$14,313,485	4.7%	\$2,862,697
21 Investments: WAL 3-5 years	\$8,106,188	2.7%	20%	\$1,621,238	\$8,106,188	2.7%	\$1,621,238
22 Investments: WAL 5-10 years	\$17,755,313	5.9%	20%	\$3,551,063	\$17,755,313	5.9%	\$3,551,063
23 Investments: WAL > 10 years	\$0	0.0%	20%	\$0	\$0	0.0%	\$0
24 Corporate CU member capital	\$0	0.0%	100%	\$0	\$0	0.0%	\$0
25 PIC/Perpetual Contributed Capital	\$31,968	0.0%	100%	\$31,968	\$31,968	0.0%	\$31,968
LOANS							
26 Nondelinquent nonfederally GSL	\$1,945,780	0.6%	100%	\$1,945,780	\$1,945,780	0.6%	\$1,945,780
27 Nondelinquent other loans	\$45,717,735	15.1%	100%	\$45,717,735	\$45,717,735	15.1%	\$45,717,735
28 Reportable delinquent other loans	\$525,740	0.2%	100%	\$525,740	\$525,740	0.2%	\$525,740
29 Nondelinquent 1st mortgage real estate loans*							
30 < 25 % of assets	\$75,353,022	24.9%	50%	\$37,676,511	\$75,353,022	24.9%	\$37,676,511
31 Excess of 25 - 35% of assets	\$30,127,778	9.9%	50%	\$15,063,889	\$30,127,778	9.9%	\$15,063,889
32 Excess of 35% of assets	\$0	0.0%	50%	\$0	\$0	0.0%	\$0
33 Other real estate and delinquent real estate							
34 < 10% of assets	\$30,141,209	9.9%	100%	\$30,141,209	\$30,141,209	9.9%	\$30,141,209
35 Excess of 10% - 20% of assets	\$30,141,209	9.9%	100%	\$30,141,209	\$30,141,209	9.9%	\$30,141,209
36 Excess of 20% of assets	\$2,697,410	0.9%	100%	\$2,697,410	\$2,697,410	0.9%	\$2,697,410
37 Small business administration loans	\$0	0.0%	20%	\$0	\$0	0.0%	\$0
38 Member business loans							
39 < 15% of assets	\$1,172,943	0.4%	100%	\$1,172,943	\$1,172,943	0.4%	\$1,172,943
40 Excess 15 - 25% of assets	\$0	0.0%	100%	\$0	\$0	0.0%	\$0
41 Excess of 25% of assets	\$0	0.0%	100%	\$0	\$0	0.0%	\$0
OTHER ASSETS							
42 NCUSIF	\$2,652,578	0.9%		\$0	\$2,652,578	0.9%	\$0
43 Goodwill	\$0	0.0%		\$0	\$0	0.0%	\$0
44 Identifiable intangible assets	\$0	0.0%		\$0	\$0	0.0%	\$0
45 Investment in CU service organization	\$100	0.0%		\$0	\$100	0.0%	\$0
46 Mortgage servicing assets	\$349,761	0.1%		\$0	\$349,761	0.1%	\$0
47 All other assets	\$20,049,503	6.6%		\$0	\$20,049,503	6.6%	\$0
TOTAL ASSETS	\$303,082,859	100%			\$303,082,859	100%	
OFF BALANCE SHEET ITEMS							
48 Loans sold with recourse	\$0	0.0%		\$0	\$0	0.0%	\$0
49 Unfnd commit on business loans (75% conversion)	\$94,604	0.0%		\$0	\$94,604	0.0%	\$0
50 Unfnd commit on non-business loans (10% conversion)	\$4,219,846	1.4%		\$0	\$4,219,846	1.4%	\$0
TOTAL RISK-WEIGHTED ASSETS (RBC Denominator)				\$176,971,973			\$176,971,973
Risk Assets to Total Assets (%)				58.4%			58.4%

*excludes member business loans secured by real estate

RISK-BASED CAPITAL SIMULATOR

Make sure to read the instructions before using

SCENARIO: NCUA RBC Simulation on HHFCU Q1 2014 Balance Sheet

CU Name: Hudson Heritage FCU

State: NY

Base Case Risk-Based Capital	12.49%
Simulated Risk-Based Capital	12.49%

INPUTS FROM NCUA CALCULATOR:

	Base Case	Simulated Case
1 ASSETS (\$):	\$303,082,859	\$303,082,859
2 NET WORTH (RATIO) (%):	10.04%	10.04%
3 RISK BASED CAPITAL RATIO (%):	12.49%	12.49%
4 NUMERATOR (\$):	\$29,437,694	\$29,437,694
5 DENOMINATOR (\$):	\$235,618,750	\$235,618,750

NUMERATOR CALCULATIONS

	Current Dollar Amount	Current Percent of Total Assets				Future Percent of Total Assets	Future Dollar Amount
8 + Undivided earnings	\$27,008,973	8.9%				8.9%	\$27,008,973
9 + Regular reserves	\$2,011,314	0.7%				0.7%	\$2,011,314
10 + Appropriations for non-conforming investments	\$0	0.0%				0.0%	\$0
11 + Other reserves	\$0	0.0%				0.0%	\$0
12 + Equity acquired in merger	\$1,399,213	0.5%				0.5%	\$1,399,213
13 + Net income	\$0	0.0%				0.0%	\$0
14 + Subordinated debt included in net worth	\$0	0.0%				0.0%	\$0
= NET WORTH	\$30,419,500						\$30,419,500
14 + Allowance for loan & lease losses	\$1,670,772	0.6%				0.6%	\$1,670,772
15 - Goodwill	\$0	0.0%				0.0%	\$0
16 - Identifiable intangible assets	\$0	0.0%				0.0%	\$0
17 - National Credit Union Share Insurance Fund	-\$2,652,578	-0.9%				-0.9%	-\$2,652,578
= RBC NUMERATOR	\$29,437,694						\$29,437,694

DENOMINATOR CALCULATIONS

	Current Dollar Amount	Current Percent of Total Assets	NCUA Risk Weights	Current Risk Weighted Dollar Amount	Future Dollar Amount	Future Percent of Total Assets	Future Risk Weighted Dollar Amount
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18 Cash on hand	\$2,888,224	1.0%	0%	\$0	\$2,888,224	1.0%	\$0
INVESTMENTS							
19 Investments: WAL < 1 year	\$19,112,914	6.3%	20%	\$3,822,583	\$19,112,914	6.3%	\$3,822,583
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21 Investments: WAL 3-5 years	\$8,106,188	2.7%	75%	\$6,079,641	\$8,106,188	2.7%	\$6,079,641
22 Investments: WAL 5-10 years	\$17,755,313	5.9%	150%	\$26,632,970	\$17,755,313	5.9%	\$26,632,970
23 Investments: WAL > 10 years	\$0	0.0%	200%	\$0	\$0	0.0%	\$0
24 Corporate CU member capital	\$0	0.0%	100%	\$0	\$0	0.0%	\$0
25 PIC/Perpetual Contributed Capital	\$31,968	0.0%	200%	\$63,936	\$31,968	0.0%	\$63,936
LOANS							
26 Nondelinquent nonfederally GSL	\$1,945,780	0.6%	100%	\$1,945,780	\$1,945,780	0.6%	\$1,945,780
27 Nondelinquent other loans	\$45,717,735	15.1%	75%	\$34,288,301	\$45,717,735	15.1%	\$34,288,301
28 Reportable delinquent other loans	\$525,740	0.2%	150%	\$788,610	\$525,740	0.2%	\$788,610
29 Nondelinquent 1st mortgage real estate loans*							
30 < 25 % of assets	\$75,353,022	24.9%	50%	\$37,676,511	\$75,353,022	24.9%	\$37,676,511
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34 < 10% of assets	\$30,141,209	9.9%	100%	\$30,141,209	\$30,141,209	9.9%	\$30,141,209
35 Excess of 10% - 20% of assets	\$30,141,209	9.9%	125%	\$37,676,511	\$30,141,209	9.9%	\$37,676,511
36 Excess of 20% of assets	\$2,697,410	0.9%	150%	\$4,046,114	\$2,697,410	0.9%	\$4,046,114
37 Small business administration loans	\$0	0.0%	-80%	\$0	\$0	0.0%	\$0
38 Member business loans							
39 < 15% of assets	\$1,172,943	0.4%	100%	\$1,172,943	\$1,172,943	0.4%	\$1,172,943
40 Excess 15 - 25% of assets	\$0	0.0%	150%	\$0	\$0	0.0%	\$0
41 Excess of 25% of assets	\$0	0.0%	200%	\$0	\$0	0.0%	\$0
OTHER ASSETS							
42 NCUA SIF	\$2,652,578	0.9%	-100%	-\$2,652,578	\$2,652,578	0.9%	-\$2,652,578
43 Goodwill	\$0	0.0%	-100%	\$0	\$0	0.0%	\$0
44 Identifiable intangible assets	\$0	0.0%	-100%	\$0	\$0	0.0%	\$0
45 Investment in CU service organization	\$100	0.0%	250%	\$250	\$100	0.0%	\$250
46 Mortgage servicing assets	\$349,761	0.1%	250%	\$874,403	\$349,761	0.1%	\$874,403
47 All other assets	\$20,049,503	6.6%	100%	\$20,049,503	\$20,049,503	6.6%	\$20,049,503
TOTAL ASSETS	\$303,082,859	100%			\$303,082,859	100%	
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49 Unfnd commit on business loans (75% conversion)	\$94,604	0.0%	100%	\$94,604	\$94,604	0.0%	\$94,604
50 Unfnd commit on non-business loans (10% conversion)	\$4,219,846	1.4%	75%	\$3,164,885	\$4,219,846	1.4%	\$3,164,885
TOTAL RISK-WEIGHTED ASSETS (RBC Denominator)				\$235,618,750			\$235,618,750
Risk Assets to Total Assets (%)				77.7%			77.7%

*excludes member business loans secured by real estate