

April 13, 2015

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

Dear Mr. Poliquin,

Thanks for reading my RBC2 Comment letter

I became President of Polish National Credit Union following a long career as a bank regulator. So, I hope I offer a unique perspective. Please know that RBC2 is a substantial improvement from RBC1. However, numerous aspects of RBC2 concern me. For the purpose of this letter, I just want to focus on the RBC2 issues of greatest concern.

**Please consider the following:**

**Complex Credit Union Definition---Asset Threshold of \$100 Million**

The asset size threshold for RBC coverage was raised to \$100 million from \$50 million. The Proposed RBC2 system might be needed for some credit unions, but it's not appropriate for the Polish National Credit Union (PNCU). PNCU has asset of \$470 million and capital of 15%. The Credit Union has a "plain-vanilla" balance sheet. We're in the business of taking prudent risks. In fact, you could write our report of examination on the back of a cocktail napkin. . For instance, our loan portfolio has an aggregate LTV of 37%. FICO score distribution of loan portfolio discloses 82% "A" paper, 12% "B" paper, etc. Somehow PNCU does not deserve the level of scrutiny in RBC2.

As a former bank examiner, I could easily cite some institutions with assets less than \$100 million that could be deemed "complex". Defining a credit union simply by asset size is a mistake. Consideration should be given to the complexity of funding sources, loan & investment types as well as services offered. Some smaller credit unions should comply, while some larger CU's should be exempt from RBC reporting requirements. The final regulation does not have to be similar to the FDIC RBC. Overall, I'm providing you with a unique approach to RBC.

Besides, PNCU operates in the best interest of the member and operates in a prudent manner that protects the NCUA's insurance fund. "One-size fits all"---is not a reasonable approach.

**250% Risk Weight for Mortgage Servicing Rights**

PNCU is primarily a mortgage lender. The 250% risk weight for mortgage serving rights is too high. RBC2 impacts consumers as credit unions will lend where banks won't. This is one aspect of RBC2 that

has the potential to undermine PNCU and the entire credit union movement. RBC2 will eventually constrain our ability to make more loans in our community. I understand that the NCUA has an insurance fund to protect---but PNCU needs to serve members who have been abandoned by the big banks.

**Legal List of Investments under Massachusetts General Laws (MGL)**

Please consider some of the risk-weightings that would be placed on some of the investments allowed by the Legal List per MGL Chapter 167, Section 15A. The prescribed risk weighting for certain mutual funds is 300%. This would preempt certain investment authorities provided by MGL.

**Interest Rate Risk**

Interest Rate Risk (IRR) was removed from RBC1 and is not included in RBC2. At the same time, NCUA's Letter to Credit Unions (January 2015) lists interest rate risk as their #2 priority. I'm concerned that it will be the subject of another rule making. There is no need for a new rule on IRR. We have experienced NCUA Examiner and State Examiners who are very capable of exercising good examiner judgement as it pertains to IRR. In my opinion, there's no substitute for good examiner judgement as it pertains to IRR. As a former regulator I've seen numerous credit unions with similar Net Long-Term Asset Ratios that have very different levels of IRR. Also, credit unions have all kinds of methods for modeling non-maturity deposits. So, there is no one size fits all solution for IRR. Overall, I recommend continued reliance on the supervisory process.

**Communication of Proposed RBC2 Regulation**

This is my first time sending a Comment letter to the NCUA. I would have preferred face-to-face communication. Perhaps you might contact Paul Gentile, President Cooperative Credit Union Association (CCUA) in order to coordinate a "town meeting" with the NCUA Board and Credit Union Executives from MA, NH, & RI. This format might generate some rich, meaningful dialogue regarding RBC2.

Finally, I look forward to working with the National Credit Union Administration, Division of Banks, and the Cooperative Credit Union Association to find a suitable regulation. Please know that as a former regulator that I respect the tough job that you're entrusted with.

Sincerely



James P. Kelly  
President/CEO  
Polish National Credit Union

CC: Lucy Ito, CEO NASCUS, Paul Gentile, CEO CCUA, David Cotney, Commissioner of Banks