March 24, 2014

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

Neighbors Federal Credit Union
Charter: 9229

Commentary Regarding NCUA Risk Based Capital Proposal

Our senior management team has completed its review of the NCUA's proposed risk-based capital rule. It indicates that our credit union is considered well capitalized under both current and the proposed regulation; however, as of 12/31/2013 the spread between our risked based net worth requirement and net worth is less under the proposed regulation (2.63%) versus the current regulation (3.28%). This is troublesome when reviewing our balance sheet. As a result, we oppose the proposed risked-based capital rule in its current state.

We compared our ratios against a credit union of similar asset size that was also considered well capitalized under both the current and proposed regulation. However, this credit union experienced an increase in the spread under current versus the proposed regulation. The credit union had a SIRRT ratio 4 times greater than ours and a net long-term assets to total assets ratio that was 2.4 times greater. In addition, it had significant investments greater than 5 and 10 years plus 3.5 times the amount of business loans. Our credit union's delinquency ratio was 11 basis points lower. So, we had lower interest rate risk and credit risk but somehow experienced less of an increase in risked based net worth under the proposed regulation. This does not make sense.

There may be some unintended consequences of the proposal as well. After reviewing the comparison between credit unions, it became apparent that we could increase our net worth ratio under the proposed regulation by increasing our portfolio of fixed rate first mortgages (thus increasing interest rate risk...before being assessed over 100% in risk weighting) and by decreasing home equity loans (variable rate loans with limited interest rate risk) as our other real estate loans were risk rated between 100% and 150%. Again, this incentive may have unintended consequences in a rate environment that is expected to increase over the next two to three years. We understand that rates may or may not rise but the incentive for us to increase interest rate risk is there.

In addition, the liability side of the balance sheet is ignored completely. Hedging strategies through borrowings, mix of deposits, to mitigate risk are not taken into consideration. Any risk on the liability side is excluded as well.

We believe for this proposal to be effective, call reporting will need to be expanded to take into account the complexities of credit unions' balance sheets. Those credit unions that have taken action to mitigate risk should have this reflected in the risked based capital proposal. Capital levels and risk are instrumental in credit unions strategic planning decisions. It is important that the NCUA revise the proposed risked based capital regulation and allow credit unions time to adjust their balance sheets before implementing. Or, the NCUA should consider staying with the current regulation.

Respectfully submitted,

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