Hudson River Teachers Federal Credit Union

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Hudson River Teachers FCU

February 14, 2014

The Honorable Debbie Matz, Chairman
The Honorable Michael Fryzel, Board Member
The Honorable Richard Metzger, Board Member
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: Risk-Based Capital Rule—Dissent

Dear Chairman Matz, and Board Members Fryzel and Metzger:

On behalf of the Hudson River Teachers Federal Credit Union, I am writing to express our dissent on NCUA's proposed rule entitled Prompt Corrective Action-Risk Based Capital. My feelings are based on my 38 years in the industry and reflect some topics and positions I have written about for over 20 years in the Credit Union trade publications.

First, Credit Unions are NOT Banks. The idea that you are trying to respond to the Bankers Basel III accords is just the wrong idea for Credit Unions. Banks have "Capital"...Credit Unions have "Reserves". When Banks want to raise "Capital" they sell more stock...Credit Unions can only raise "Reserves" through Operations. Banks have "Net Income"...Credit Unions make a "Net Contribution to Reserves". Banks are FOR PROFIT...Credit Unions are truly NOT FOR PROFIT.

I guess the key point to the whole discussion is "How Much Reserves are the Right Amount of Reserves". Interestingly Credit Unions unlike the Banks have always had the Right amount of Reserves. The US Taxpayer has NEVER had to pay a PENNY to bail out a Credit Union. Banks and Savings Institutions on the other hand have a history of reaching into the taxpayer's pocket. I can understand why Regulators are interested in Getting Banks to have "more skin in the game". The complex risks they (THE BANKS) take is usually the case of "roll the dice" if they win, they win, if they lose the taxpayer pays. By Regulation and structure Credit Unions do NOT have opportunities to "roll the dice" like some complex Banks do. Individuals in Banking Institutions have a way of enriching themselves when they "roll the dice". Credit Unions do NOT have that kind of structure. Trying to assign Heavy Risk weights to Credit Union products makes no sense. Here are some thoughts on why NCUA's risk weighting is miss-placed.

Investments- basing the weighting on years to maturity completely misses the QUALITY of the investments in Credit Union portfolios. A variable rate Instrument backed by the Full Faith and Credit of the US Government that has a 2 year Average Life gets marked by NCUA in the over 10 year bucket and is assigned a high Risk weight. **Show me the Risk!**

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Mortgages- Lumping mortgages and basing the weighting on years to maturity once again totally discounts QUALITY. We sell all Fixed Rate Product into the secondary market. How do you account for a Variable Rate Mortgage with a 51% Loan to Value. **Show me the Risk!**

NCUSIF Deposit- The 1% Deposit is totally eliminated! After years of paying Assessments the Credit Union Industry has clearly shown the value of the Deposit. The Deposit has clearly held up as an asset of the Credit Union. Why is it being dropped from the equation? Are you telling us that we are going to take another hit to our Balance Sheet?

On the next subject I know that a number of Credit Unions are in favor of a "Secondary Capital" proposal...I however disagree. The idea of giving the Credit Union Community an opportunity to raise "Secondary Capital" by offering higher paying UNINSURED DEPOSITS as a way of increasing "Capital" is a non-starter to me. Credit Unions are not in business to be selling a stock-like product. Do the owners of these UNINSURED DEPOSITS have rights to the assets of the Credit Union before other members? Will they get their own Board seat? We are cooperatives. We don't want to be owned by the Mellon's nor the Rockefellers. "UNINSURED DEPOSITS" ...it just doesn't equate. I bet a lot of Credit Union members who move their money into these HIGH RATE CD's...will suddenly be surprised that it DOESN'T CARRY DEPOSIT INSURANCE. Is that the kind of deceptive business Credit Union should be in? I for one don't think so.

If the bloated Risk Weights stay as proposed...the new Risk Based Capital rule will clearly be a great rallying cry for Large Credit Unions to become Banks. The guys from the Wall Street firms who lurk at Credit Union conventions and send letters to Credit Union Board members on how they can become rich by converting those member "Reserves" into the personal stock of the Insiders... will think harder about becoming a Bank. We are a Credit Union with almost $50 Million in Assets. We will probably fall within the guidelines of the Risk Based Capital Proposal when your rules go into effect. If you keep your arbitrary and capricious risk weights in place...we will be issued a DEATH SENTENCE...SHRINK OR BE MERGED.

The Broad brush of risk weights that you are proposing needs to be corrected. This Proposed Capital Rule does NOT answer the question of "How Much Reserves are the Right Amount of Reserves". We need to evaluate the Quality of Credit Union Assets and get the Risk weights properly in line. As someone who has devoted his Life to the Credit Union movement, I hope that a proper system can be devised that will benefit everyone.

Sincerely,

Thomas J. Powers Jr.

Thomas J. Powers, Jr.
CEO