From:	John Dawidowski
To:	_Regulatory Comments
Subject:	Prompt Corrective Action Risk-Based Capital Comment Letter
Date:	Monday, April 07, 2014 1:01:13 PM

Dear Secretary of the Board Poliquin,

HEALTHCARE EMPLOYEES FEDERAL CREDIT UION
CHARTER # 24150
LOCATION: PRINCETON, NEW JERSEY
MEMBERSHIP: 20,000 (SERVING MEMBERS THROUGHOUT NJ IN OVER 300 SEG'S)
ASSETS: $100,000,000

SUBMITTED BY: JOHN J. DAWIDOWSKI, CEO

COMMENTS ON PROPOSED RISK BASED CAPITAL:

1. NCUSIF: No clear explanation has been provided which explains the rationale or logic behind the removal of the NCUSIF Deposit as part of Capital. Credit Unions have paid into the NCUSIF each year including the many years of special assessments for the natural person credit unions and corporate stabilization. The NCUSIF deposit should not be eliminated in determining the risk based net worth.

2. Investments: while it is prudent to have an investment plan which reflects liquidity and interest rate risk; it may not be prudent to restrict (or penalize) credit unions for extending maturities of investments. For example if rates are expected to rise a prudent plan would shorten duration, however in a high rate scenario if rates were expected to fall a prudent course of action would be to extend maturities. This is exactly a scenario which would put earnings at risk by having an arbitrarily high risk weighting assigned.

3. Lending: No clear explanation or rationale as to the logic has been provided in which 2nd mortgages have a higher risk weighting that 1st mortgages. The proposal does not consider length of the mortgage, the re-price characteristics, LTV, nor the credit quality. At HEFCU we have had enormous success in providing members with ability to finance 2nd mortgages using prudent measures for both ability to repay as well as loan to value. We have adopted a strategy of providing our members with low cost source of funds in financing primary residence in New Jersey – this proposal would dramatically impact our ability to provide a much needed service for our members.

4. Goodwill: having a risk weighting for Goodwill will restrict ability of credit unions to merge either voluntarily or via a troubled situation. This would impact the NCUSIF as risk would then be shifted to the NCUSIF for any resulting losses should a troubled credit union not survive and therefore be subsidized by the industry in the form of additional assessments. In the case of voluntary mergers the credit unions that choose to seek economies of scale to provide improved services to members will also be restricted.

5. General observation: it is clear to HEFCU that the NCUA is attempting to prevent failures and shortcomings from the past. Many of the issues surrounding the past were compounded by lack of oversight by Corporate Credit Unions not necessarily by natural person credit unions. The causes of losses from natural person credit unions can largely be attributed to rapid and unexpected declines in real estate values including sub-prime lending and high LTV lending without proper documentation to substantiate ability to pay criteria. From our perspective that was the exception not the rule. Many of the changes in mortgage lending and licensing have addressed those issues along with more stringent oversight of corporate credit unions. The need to have increased levels of Capital will ultimately restrict the growth of the industry and our ability to be relevant to the needs of our membership.

Sincerely,

John Dawidowski
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