Sunmark
FEDERAL CREDIT UNION
LIFE WITH INTEREST

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April 7, 2014

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

Dear Mr. Poliquin,

I am writing on behalf of Sunmark Federal Credit Union, a $401 million asset credit union serving over 47,000 members in seven counties in Upstate New York. Sunmark FCU appreciates the opportunity to provide our comments to the NCUA on the proposed rule Prompt Corrective Action, Risk Based Net Worth.

According to CUNA, Inc. research, approximately 200 credit unions capital classification would immediately be downgraded under the proposed rule, and Sunmark is one such credit union. Sunmark's Net Worth as of December 31, 2013 was 9.07% and Risk Based Net Worth (RBNW) requirement was 5.49%, which placed Sunmark comfortably above the "well capitalized" category under the current regulation. However, under the proposed rule, Sunmark would be downgraded to "adequately capitalized" based on a Risk Based Capital Ratio calculation of 10.11%.

The proposed rule, if adopted unchanged, would have an immediate impact on Sunmark FCU and its members, as shown below:

- Sunmark's current net worth ratio of 9.07% is 30% above the "well capitalized" minimum of 7.00%.
- The proposed rule would place Sunmark 4% ***below*** the "well capitalized" minimum of 10.50%.
- Sunmark would need approximately $12 million in additional capital to reach the same 30% above the "well capitalized" minimum under the proposed rule level that we now have under current rules.

Sunmark's Board and Management set specific goals for Net Worth each year to maximize the return to the member. This Net Worth goal allows Sunmark to offer the best possible loan and deposit products and rates, grow our balance sheet and expand services in the future.

The additional capital we would need to raise under the proposed rule would have a detrimental impact on the membership as we would likely have to increase loan rates and fees. We would also have to reposition the balance sheet and cease retention mortgages, home equities and business loans. This would result in members looking elsewhere for their real estate lending. In turn, there would be a large opportunity cost to the credit union as we forego higher yielding, longer term assets for shorter terms and low returns.

In addition, the required $12 million increase in capital per the calculation above would leave Sunmark with a Net Worth ratio of 11.70%. Sunmark's strategic statement, as issued by the Board, targets a maximum Net Worth ratio of 10.00%. We feel a capital ratio that high is an extremely poor use of the membership's money, and we would simply be acquiring capital, turning away members and suppressing asset growth to meet a punitive, risk based capital ratio.

We would like to address three specific areas of the proposed calculation and the impact on Sunmark – the weighting of real estate loans, the weighting of Investments in CUSO's and the weighting of Perpetual Contributed Capital.

1. Sumark Management feels that the proposed RBNW rule unfairly penalizes credit unions that have made sound real estate and business lending decisions. We have a robust mortgage and home equity portfolio with a mix of maturities from 5 to 30 years, and we are among the lowest in the nation with a 0.24% charge off ratio. Sunmark is recognized as an industry leader in the home mortgage business in upstate NY, and have won regional and national mortgage lending awards. The proposed rule would all but halt our real estate lending business.

   This part of the proposed rule is particularly perplexing. Depending on the concentration of these assets on the balance sheet, a 30 year fixed mortgage could be weighted at 50%, yet a 10 year variable rate home equity loan could be weighted as high as 150% and an investment in a 30 year MBS could be weighted as high as 200%. The random allocations in this area of the proposal are confusing and difficult to rationalize.

2. Sunmark also believes that the weighting of Investments in CUSO's of 250% is extremely excessive and arbitrary. We have invested $1.6 million in two highly successful CUSO's specializing in insurance and title work. In 2013 alone, Sunmark recognized $485,000 in net income from the Investment in CUSO's for a return of nearly 29%. Industry wide, CUSO's not only provide vital member services, they also generate off balance sheet income. Credit unions have been forced to seek other revenue streams during a down economy and low rate environment, and CUSO income helps overcome shrinking interest rate margins. Why is the NCUA risk weighting of the investment in these important organizations so heavy? A risk weight this excessive may discourage the

investment in CUSOs which would eliminate member services, send members elsewhere, and decrease other income.

3. The last item we would like to specifically address is the 200% weight given to Perpetual Contributed Capital in our Corporate. The Corporates rely on this capital to meet their own revised Net Worth requirements implemented by the NCUA. Credit Unions like Sunmark performed their due diligence when the Corporates appealed to us to reinvest in the credit union system after the events of 2008-2010. The Corporates rely on credit unions to utilize their services, and we rely on them to provide critical member services, investments and liquidity at a reasonable cost. This relationship benefits the entire credit union industry, yet per the proposed rule, our good faith investment in that industry is considered highly risky and weighted at 200%. We would ask the NCUA to reconsider the risk weighting this portion of the proposal as well.

In addition to the areas mentioned that directly affect Sunmark FCU, we also feel that an adequate justification for the proposal should be provided to the industry. Prior to finalizing the rule, the NCUA should provide its member credit unions with sufficient reasons and data as to why it feels the risk on credit union balance sheets has reached such a critical level that this rule has become necessary.

Most concerning of all the issues in the proposal is the NCUA giving itself the ability to impose even higher capital requirements on individual credit unions as it deems necessary. This part of the proposal needs further clarification and guidelines if it is to remain in the final rule.

Sunmark FCU appreciates the opportunity to respond to the Risk Based Capital proposal.

Sincerely,

Bryan E Delehanty

Bryan Delehanty
VP/CFO