April 21, 2014

MidState Federal Credit Union
237 Roosevelt Ave.
Carteret, NJ 07008

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

Via e-mail: regcomments@ncua.gov

Re: Comments on Proposed Rule: Prompt Corrective Action-Risk-Based Capital.

Dear Mr. Poliquin:

On Behalf of the board of directors, management, staff and the 1100 members we serve in the state of New Jersey, MidState FCU appreciates the opportunity to submit comments on the NCUA proposed rule Prompt Corrective Action-Risk-Based Capital (RBC). MidState FCU holds 16 million in assets and has been in operation for sixty-four (64) years.
While we are currently not 50 million in assets, we feel compelled to make comments. We are a community based credit union with an aggressive strategic plan to grow. Currently, our capital ratio is 12.59% which allows us room for growth.

NCUSIF 1% Deposit to be Ignored
NCUA's requirement that the NCUSIF 1% deposit be ignored in the risk-based capital calculation should be reconsidered. The justification for removing the deposit is unclear, yet quite significant. The agency needs to provide a deeper explanation as to its reasoning for this proposed change.
RBC Implementation
MidState feels strongly that the implementation of a Risk-Based Capital (RBC) system is likely a necessary move for our industry, but not in the way this proposed rule details. Every credit union's balance sheet is unique, and while a risk-based capital approach in calculating net worth appears to be appropriate, we particularly disagree with the risk-weightings on member business lending, mortgages and CUSOs.

Examiner
While the need for flexibility within the proposed rule is understood, it is concerning that NCUA would propose arbitrarily applying a minimal capital requirement to a credit union. That type of flexibility, in our opinion, is beyond the scope and authority of the agency, leaving a credit union open and vulnerable to an examiner's subjectivity.

Member Business Lending
We ask NCUA to provide a better explanation of how the risk weightings for member business lending were derived and how justified. It appears that the risk weightings for member business loans, under the rule, suggest that credit union member business loans are much more risky than those offered by banks? It would not be cost effective for credit unions to spend time a resources to implement, let alone sustain, a member business lending program if we cannot succeed within the scope of the regulatory environment that requires us to comply with the new rules.

Mortgage Loan Servicing Risk Rating
In our opinion, the mortgage servicing risk rating of 250% appears excessive. The result will be the unintended consequence of restricting access to affordable mortgage loans for credit union members. Again, similar to our aforementioned references to member business lending risk weights, the proposed risk weightings suggest credit union mortgage loans are more risky than those made by banks. Credit unions have often been the consumer's more affordable alternative to banks, but under this proposed rule credit unions may be a far less competitive alternative as the result will be the restriction of mortgage services.

Credit Union Service Organizations (CUSOs)
We do not understand NCUA's reasoning for the 250% risk weight given to all CUSO investments. We are questioning the reason for harsher weighting for CUSOs. We ask that the agency consider that different CUSOs may need to carry different risk weightings. Along with member business loan and mortgage concentrations, the higher weights do not appear to be appropriately set for credit unions. They are, in fact, even higher than what is being imposed on banks by the Basel III changes.

Implementation Date
Respectfully, MidState would like for you to consider some changes prior to implementing this regulation. Our opinion is that you would be putting undue burden on some credit unions by the short implementation date. We have all been in a recessionary environment since 2009, and the low interest rates have taken its toll on earnings. It is obvious that higher interest rates are on the way, and will provide some relief for compressed spreadsheets, but the improved earnings will not happen overnight. Please consider something more in the line with a 3-year implementation period or longer.

Thank you for the opportunity to comment on the proposed rule. If you should have any questions, please contact me at tracystv@aol.com or 732-541-4151.

Sincerely,

Tracy Sussmann, CCUE
President/CEO

cc: Deborah Matz, Chairperson
Michael Fryzel, Board Member
Richard Metsger, Board Member