Pinnacle Federal Credit Union
Better banking ★ Personal touch

April 23, 2014

MAY05'14 AM10:40 BOARD

Pinnacle FCU
135 Raritan Center Parkway
Edison, NJ 08837

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
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 Pinnacle Federal Credit Union and the nearly 21,500 members we serve in the states of New Jersey, New York and Pennsylvania. We appreciate the opportunity to submit comments on the National Credit Union Administration's (NCUA) proposed rule Prompt Corrective Action – Risk-Based Capital (RBC). Pinnacle FCU holds $139.6 million in assets, is a not-for-profit, financial cooperative, here to serve the underserved by creating an environment of competitive products and services designed to meet our members' financial needs, while adding value to their lives. Pinnacle FCU also prides itself on providing financial education and promoting consumer awareness to our members.

Pinnacle is **rated "Well Capitalized" by the current net worth calculation system by over 80 bps**. Since Pinnacle FCU would be forced to take significant measures to remain "Well Capitalized". Under the proposed risk-based capital formula Pinnacle FCU appears to be rated only "Adequately Capitalized". As a result would likely have to take the following actions to bring us back to "Well Capitalized":

1) Reduce dividend rates.
2) Curtail accepting deposits.
3) Discontinue offering real estate loans.
4) Restructure the balance sheet to sell off long-term loans and investments.
5) Increase fees to members to build capital.

Pinnacle also believes that the rule doesn't adequately address the following:

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 its effect is quite significant. The agency needs to provide a deeper explanation as to its reasoning for this proposed change.

Examiner Discretion
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 this agency, leaving a credit union open and vulnerable to an examiner's subjectivity.

RBC Implementation
Pinnacle FCU 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.

Member Business Lending
We call on 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 the time and 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 in our efforts to comply with the new rule.

Investments
The proposed rule would unfairly penalize credit unions and shows a bias towards lending and against investments. The current risk-weights don't accurately reflect the interest rate risk for short-term and middle-term investments such as those under a 5 year maturity. An alternative risk-weight system for investments that doesn't penalize credit unions for all investments with an over a year maturity is preferred over the proposed rule.

Credit Union Service Organizations (CUSOs)
We do not understand NCUA's reasoning for the 250% risk weight given to all CUSO investments. As many credit unions do, Pinnacle FCU invests in an auto program, in partnership with several other credit unions. The program is a shared service center network since 2001. We are questioning NCUA's reasoning for harsher weighting for CUSOs. We recommend 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.

Individual Minimum Capital Requirement
There are serious concerns about the legal authority of NCUA to enact individual minimum capital requirements. This portion of the regulation undermines the entire purpose of the rule. The difficultly for credit unions is compounded when the rules can change. This provision just adds uncertainty to credit union management. This section should be removed from any final rule.

Supplemental Capital
Supplemental capital authority is needed now more than ever considering the restrictions brought on by this proposed rule. Supplemental capital authority is not the answer to the entire industry's worries about capital, but it is a powerful tool that should be given to all credit unions. NCUA should call on Congress to pass a legislative solution that modernizes capital standards to allow supplemental capital and directs the NCUA Board to design a risk-based capital regime for credit unions that takes into account material risks instead of the current proposed rule.

Implementation Date
Respectfully, Pinnacle FCU would like for you to consider some changes prior to implementing this regulation. Our opinion is that you would be putting an 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 rate environment has taken its toll on earnings. It is obvious that higher interest rates are on the way, and will provide some relief for compressed balance sheets, but the improved earnings will not happen overnight. Please consider something more in line with a 5-year implementation period or longer.

Summary
Pinnacle Federal Credit Union has strategy for the past 3 years has been to:
1) Offer a variety of consumer loans;
2) Offer real estate loans, primarily those with terms of less than 5 years or variable rate loans, all underwritten to very strict guidelines;
3) Minimize the fees charged to members, and;

Pinnacle FCU has continued to pay dividends to members that are among the highest in New Jersey, manage our balance sheet such that we have ample liquidity, minimize credit risk, and our interest rate risk is minimal as well. Despite having a significant concentration in real estate loans, we are well within guidelines on the IRR and NEV shock tests.

This proposal, if enforced as written, would have the affect of forcing our credit union to curtail accepting deposits, discontinue offering real estate loans, sell some of our high-yielding loans and investments at most likely a reduced price due to numerous credit unions selling their high-yielding loans and investments at the same time, reduce dividend rates, and raise fees to get the risk-based capital ratio back to the "Well Capitalized" category. Suffering from our actions would be the very members we are here to serve.

Conclusion
Thank you for the opportunity to comment on the proposed rule Prompt Corrective Action – Risk-Based Capital. If you should have any questions, please contact me at hjacobson@pinnaclefcu.com or 1-800-742-5050, ext. 245.

Sincerely,

Harry R. Jacobson

Harry R. Jacobson, CPA
President/CEO

cc: Deborah Matz, Chairman
Michael E. Fryzel, Board Member
Richard Metsger, Board Member