North Jersey Federal
Credit Union
Above and Beyond Banking

711 Union Blvd.
Totowa, NJ 07512-2207

Phone: 973.785.9200
Fax: 973.785.7577

www.njfcu.org

Lourdes Cortez
President/CEO

April 15, 2014

MAY05'14 PM 1:38 BOARD

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 the Board of directors, management, staff and the nearly 32,000 members we serve in the Passaic and Bergen Counties and the underserved in Union and Essex Counties and the city of Newark North Jersey Federal CU appreciates the opportunity to submit comments to the National Credit Union Administration (NCUA) on its proposed rule: Prompt Corrective Action - Risk-Based Capital. NJFCU holds $212 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. NJFCU also prides itself on providing financial education and promoting consumer awareness to our members.

I am against this action. Our credit union would be negatively affected by this proposed regulation. For example: We are well capitalized with a net worth of 10.45%; this currently requires a risk based capital ratio of 5.18%. Under the proposed regulations, our risk based capital requirement would be 16.56%. This is excessive and would place a restrictive burden on our credit union.

I do not agree that this new proposal is necessary. I feel the NCUA should only impose a higher capital requirement on credit unions on a case by case basis.

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NCUAs' requirement that the National Credit Union Share Insurance Fund 1% deposit to 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.

In our opinion, parts of the proposed rule are very unfair and will inhibit most credit unions from operating at a profit due to investment restrictions which will result in compressed spreads. The proposed rule applies a risk weight factor of .12 to investments with weighted average lives between 3 – 10 years. This is unreasonable and very unfair since NCUA is treating a 3.1 year investment as having the same risk characteristics as a 9.9 year investment. Furthermore, NCUA proposes to apply a .14 factor on up to 30 year fixed rate real estate loans which is almost the same risk factor proposed to be assigned to an investment with a 3.1 year maturity. Especially since the investments do not contain Credit Risk attributes, and the mortgage loans do. This proposed methodology is unsupportable and unjustifiable!

In no way, shape, or form does an investment with a WAL remotely contain almost the same risk as a 9.9 year investment or a 30 year fixed rate mortgage. However, they are practically weighed the same in the proposed Reg. This proposed Reg. will produce meaningless numbers; result in net operating losses, and force examiners to state high risk is present, when risk could be low to moderate.

A credit union would find it very difficult to effectively and prudently manage their balance sheet applying this criteria to measure RBNW requirements. Credit unions with lower net worth would most likely end up with a RBNW requirement higher than book NW, thereby requiring a NWRP just because their investments fall into a 3 – 5 year bucket.

In addition 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. 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.

Respectfully, NJFCU 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 spreadsheets, but the improved earnings will not happen overnight. Please consider something more line with a 3-year implementation period or longer.

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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 reduce rates, and raise fees to get the risk-based capital ratio back to the "Well Capitalized" category. This doesn't make sense. Nor is it realistic to exclude good will when calculating the RBC numerator. We have successfully served our members for 78 years and our brand has valuable equity in the communities we serve.

Thank you for the opportunity to comment on this proposed rule and for considering our views on risk based capital requirements. If you should have any questions, please contact me at lcortez@njfcu.org or 973-785-9200 Ext: 3399.

Sincerely,

Lourdes Cortez
President and CEO

Cc: Deborah Matz, Chairman
Michael E. Fryzel, Board Member