Town of Hempstead Employees Federal Credit Union
1830 Grand Avenue, Baldwin, New York 11510-2417
Phone: 516-867-4730 • Loan Department: 516-867-2828 • Fax: 516-223-2218

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Mary Lou Keane
CFO
Town of Hempstead EFCU
1830 Grand Ave
North Baldwin, NY 11510-2416

Mr. Gerard Poliquin,
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314–3428.

Dear Mr. Poliquin:

On behalf of the Town of Hempstead Employees Federal Credit Union, I would like to comment on NCUA's proposed Risk Based Net Worth framework. Even though my credit union would remain well-capitalized under this proposal, as currently drafted it will negatively impact the ability of the credit union to provide needed services to its members.

By placing too great of an emphasis on concentration risk, this proposal limits the ability of the credit union to respond to changing conditions and offer the products our members want and need. For example, my credit union provides more than $25 million in mortgage loans. The Long Island housing market is one of the most expensive in the nation, but we have a proven track record of helping our members get houses and pay back their mortgages. Under this proposal, non-delinquent first lien mortgages comprising 25% of a credit union's assets would be given a risk-based rating of 75%—and a rating of 100% when such loans comprise 35% of a credit union's assets. These restrictions mean that the size of the credit union's lending program will not only be based on the creditworthiness of our members, but also on the need to avoid the negative impact that good loans can have on our credit union's asset strength. In contrast, the Basel III framework, upon which NCUA's proposal is ostensibly based, places almost no restrictions on financial institutions based on concentration risk.

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If the NCUA feels that some concentration risk-weighting is appropriate, it should at least modify this proposal so that the expertise and experience of a credit union underwriting real estate loans is reflected in the overall risk-weightings. For example, my credit union has had decades of experience underwriting loans in the Long Island area. Given the quality and experience of our underwriting, these mortgages do not pose as great of a risk to my credit union (or to the Share Insurance Fund) as an identically sized portfolio managed by a credit union with less experience. Experience and expertise should also be factored in for credit unions that make member business loans.

My credit union also invests in CUSOs. While our existing investment of approximately $32,000 is too small to be impacted by this proposal, the extremely high risk-weighting given to such investments both discourages investment in the credit union industry and restricts the flexibility of the credit union to decide what investments best reflect the needs of its members.

While the existing proposal has serious flaws, I hope this is just the first, rough draft of a process that will lead to a more sophisticated risk-based capital framework. Properly implemented, I believe the appropriate framework can and should take interest rate risk, operational risks and even a more narrowly based consideration of concentration risks into account for purposes of assessing the safety and soundness of a credit union. However, to do so properly, NCUA has to ensure that there is consideration of a credit union's lending history and underwriting expertise.

Sincerely,

Mary Lou Keane

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