Quorum
FEDERAL CREDIT UNION

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

MAY07'14 AM 8:47 BOARD

Re: Comment to the Proposed Prompt Corrective Action - Risk-Based Capital Regulation

Dear Mr. Poliquin:

Quorum Federal Credit Union is a federally chartered credit union located in Purchase, NY. On behalf of Quorum, its board of directors, and members, I would like to provide the following official comment letter regarding the NCUA's recently proposed risk-based capital rule.

As the summary in the Federal Register regarding PCA reads; The proposed risk-based capital requirements would be more consistent with... the regulatory risk-based capital measures used by the Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve, and Office of the Comptroller of Currency

In concept we support the modernization of the new PCA regulations, and the alignment of capital requirements of various financial institution charters and international borders (Basel III). However, we reason that NCUA has attempted to broaden the components of risk mitigation which will create unintended imbalance in asset categories.

Generally speaking, in addition to asset type, the NCUA has added concentration and interest rates to the risk weightings. These two components are not included by the Federal Reserve or Basel III, but are factored by way of their annual stress testing.

The consequence of layering the additional risk components, are that it distorts incentives that may actually increase credit risk while applying undue reserve requirements for interest or market risk. It also unduly increases overall capital requirements for credit unions, whereas their nature and already limited asset and investment choices should reduce credit union capital reserve requirements.

An example of this is a 6 year government backed security that has a 150% risk weighting, while a delinquent first mortgage is 100%.

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Furthermore, it could be argued that same 6 year government backed security is also riskier than having 20% or more of your assets in saleable and performing first mortgages.
Unlike objections we have heard and read from colleagues, we agree that assets with higher risk should carry a greater capital reserve, regardless of how that may impact our own balance sheet. We also appreciate NCUA's efforts to align the method of determining the credit union capital reserve requirements with currently developing international standards.

We don't agree, however with forcing other than credit risk components in the analysis thereby thwarting, not to mention needlessly complicating the calculation.

We are pleased to comment on this very important policy decision and are ready to work with the NCUA in it's development.

Sincerely,

Bruno Sementilli
President/CEO
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