Niagara Regional Federal Credit Union
COMMITMENT TO EXCELLENCE
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May 9, 2014

Mr. Gerald Poliquin, Secretary of the Board
National Credit Union Adminstaration
1775 Duke Street
Alexandria, VA 22314-3428

MAY14'14 PM 2:25 BOARD

Dear Mr. Poliquin:

On behalf of Niagara Regional FCU, I would like to take this opportunity to comment on NCUA's proposed risk-based capital regulation. Even though NRFCU's $27 million in assets puts it well under the threshold for compliance, a new risk-based capital framework will have an indirect impact on all credit unions, particularly if it creates the inaccurate impression among potential members that the credit union industry is weaker than it appears. In addition, examiners will probably consider a credit union's risk-based capital position in assessing its overall strength.

In reviewing the proposal, I'm concerned that many of the proposed risk weightings distort the true value of credit union capital. For instance, NCUA's decision to place higher weightings on mortgages and member business loans based on the amount of such loans held by a credit union could result in credit unions having lower capital weightings than is justified based on the quality of the underlying loan or the underwriting that was used in granting it. Although my credit union would be classified as well-capitalized even if it had to comply with this regulation, we may reconsider some of our lending decisions even though the credit union is an important source of mortgage loans for our members.

As for investments, all credit unions make investments with the protection of the members' money as the primary goal. The vast majority of Niagara's investments are of short duration, but a diverse investment portfolio that includes some longer-term investments advances the goal of safety and soundness. In finalizing this regulation, investment length should not be the only basis for downgrading a credit union's investments. I am also concerned by NCUA's decision to weight investments in corporate capital, as well as CUSOs, as among the riskiest assets a credit union could make. The $30,000 in perpetual capital we have invested is the price paid for accessing transactional services at a cost-effective price within the credit union movement. NCUA should be encouraging credit unions to invest in the corporate system for the benefit of all credit unions not discouraging them.

Like many credit unions, I applaud NCUA for recognizing the need for risk-based capital. The final regulations will impact the industry as a whole irrespective of credit union asset size and I hope NCUA takes the concerns raised in this letter into account as it finalizes them.

Sincerely,

Donna Wick

Donna Wick, CEO
Niagara Regional FCU

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May 11, 2014

Mr. Gerard Poliquin
Secretary to the NCUA Board
1775 Duke Street
Alexandria, VA 22314

MAY14'14 PM 2:25 BOARD

Re: RIN 3133-AD77 Comments on Proposed Rule: PCA— Risk-Based Capital

As a former member of the Affinity Federal Credit Union Board of Directors and an Affinity member, I would like to provide the following comments regarding the February 2014 National Credit Union Administration (NCUA) proposed Risk-Based Capital rule. I have grave concerns about the potential negative impact of the proposed rule in its current form on both the institutional vitality of Affinity and the continued availability and value of the services it provides. In that regard, enumerated below are several suggested improvements in the rule intended to alleviate those concerns.

If approved as currently written, NCUA's proposed Risk-Based Capital regulation will engender a culture of risk avoidance focused on capital accumulation rather than on serving the financial needs of our members. Furthermore, it will replace prudent management of risk with a constrictive, formalistic and arbitrary regimen which undercuts the very cooperative nature of a credit union.

Risk is fundamental to every financial institution. Thus, it must be managed not avoided. Moreover, in the case of credit unions capital can only be accumulated by serving members, and managing risk is an inherent part of that process.

Even in light of the recent financial crisis, credit unions in general, and Affinity in particular, have been able to maintain more than adequate capital levels based on the current statutory levels established by Congress. In fact, many built capital during the crisis. Thus, there is absolutely no logical reason to require the significantly higher capital amounts being proposed.

The following are my specific concerns regarding the proposed rule:

Individual Minimum Capital Ratio (IMCR): The biggest and most dangerous proposal is the IMCR. It is totally subjective authority given to examiners and it overrides all risk weighting or leverage ratio outcomes. This part of the rule must be totally stricken and never allowed in any regulatory environment.

Inconsistency with bank calculation of Risk Weighted Assets (RWA): The proposed rule attempts to incorporate multiple types of financial risk exposures into one set of metrics. One of NCUA's goals is to have PCA metrics that address credit risk, interest rate risk, concentration risk, liquidity risk, operational risk, and market risk." Neither Basel III nor the FDIC Interim Final Rule attempts to capture interest rate risk, liquidity risk, market risk, or operational risk in its risk weightings. The bank rules address credit risk in the PCA metrics. FDIC acknowledges that risk exposures and factors other than credit risk may call for an institution to increase its capital levels but employs supervisory assessments, rather than PCA risk weightings, to tailor an individual institution's required capital to its risk profile. NCUA's approach puts credit unions at a distinct disadvantage to community bank competitors.

Concentration Risk multipliers for real estate and member business loans: NCUA requires increasing risk weights for concentrations in real estate and member business loans. Risk weights increase as the % of assets in these loan categories increase. Credit unions would require 2x the capital relative to bank competitors for each $ of current 1st mortgage exposure over 35% of assets if the concentration risk multipliers for real estate loans are not modified. Concentration above 20% of assets for other real estate exposures above 20% of assets results in 150% of what is required under bank rules.

Interest Rate Risk multipliers for investments: NCUA incorporates interest rate risk multipliers into the investment portfolio. Risk weights for investments increase as a function of weighted average life of the investment. NCUA would risk weight our investment portfolio at 5X what the bank model suggests as the bank model does not include interest rate risk in the calculation of risk weighted assets. Interest rate risk is adequately addressed in NCUA's interest rate risk regulation and is amply analyzed in the supervisory exam. Furthermore, including interest rate in PCR requirements without including the offsetting liability metric is not sound.

Impact on credit availability & competitive disadvantage: Including interest rate risk multipliers for the investment portfolio and concentration risk multipliers for mortgages and member business loans is contrary to the other federal regulator's PCA rules. The concentration risk multipliers on mortgages and member business loans will not only limit supply of these loans but will also impact pricing of loans to members. If banks have a lower capital requirement, they can price differently. Should NCUA be an arbiter in influencing the market's pricing for critical sectors such as mortgages and small business loans? Should NCUA propose rules that will cause credit unions to lose market share and impede their ability to grow and grow capital?

Impedes ability to build capital: The proposed rule creates a bias in favor of consumer loans. It is clear that NCUA prefers assets that are short term and is partial to retail unsecured exposures. This, along with the severe investment portfolio risk weights, will force credit unions down the yield curve to short duration assets and impede the ability to build capital. This overly prescriptive and onerous regulation essentially dictates the credit union's balance sheet structure and minimizes the board and management's ability to take calculated risk on behalf of members or structure an investment portfolio that balances risk and return. That is not the job of a regulator.

CUSOs: The risk weight applicable to CUSOs is flawed. Not only is the 250% too high but NCUA double counts exposure for majority owned CUSOs. Majority owned CUSOs are accounted under the consolidation method of accounting. RBC is based on a CU's consolidated balance sheet and thus, the assets for majority owned CUSOs are already risk weighted. Adding capital based on a schedule that shows unconsolidated results is double counting. In addition, it is contrary to the credit union's DNA-cooperative efforts to serve members and enhance the industry.

Strategic Plan: Under community bank guidelines Affinity has a substantial cushion above both the leverage and risk based capital ratio requirements that qualify an institution as "well-capitalized". Maintaining a cushion above well capitalized is a priority for Affinity's board of directors. Under NCUA's proposal, the credit union would fall to adequately capitalized for the risk based metric and remain well-capitalized under the leverage/Net-Worth measure. This proposal could result in a modification of our strategic plan and impede our ability to invest in and grow the business in order to serve members today and over the long run.

Numerator: Deducting the NCUSIF from capital assumes that this asset is essentially worthless. Treating this asset as impaired is contrary to GAAP and irrational given that its value is continually preserved through assessments.

The simple solution to all of the problems of this new proposal is to adopt the BASEL III/Community Bank model and completely remove the examiner discretion provision.

One final suggestion is to allow all natural person credit unions to access secondary or supplemental capital. Capital access is a more constructive approach to achieving capital objectives than actions such as driving out deposits, shrinking assets, curtailing lending or reducing investments in the people, systems, marketing and branching required to win business, secure technology and serve members.

Thank you very much for the opportunity to comment on this proposed regulation. While I support the efforts of NCUA to pursue a balanced risk-based capital system, the proposal in its current form is overzealous and results in undermining the value of the credit union charter. I respectfully encourage NCUA to consider some of the recommended improvements to the proposal contained herein. With the right changes, this rule can become a source of long term viability of the credit union charter. If I can be a source of any further information on this comment letter, please do not hesitate to contact me.

Respectfully yours,

MGClinton

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cc: The Honorable Frank A. LoBiondo, US House of Representatives
The Honorable Jon Runyan, US House of Representatives
The Honorable Chris Smith, US House of Representatives
The Honorable Scott Garrett, US House of Representatives
The Honorable Frank Pallone, Jr., US House of Representatives
The Honorable Leonard Lance, US House of Representatives
The Honorable Albio Sires, US House of Representatives
The Honorable Bill Pascrell, US House of Representatives
The Honorable Donald Payne, Jr., US House of Representatives
The Honorable Rodney P. Frelinghuysen, US House of Representatives
The Honorable Rush Holt, US House of Representatives
The Honorable Robert Menendez, United States Senate
The Honorable Cory A. Booker, United States Senate
Ms. Deborah Matz, NCUA Chairman
Mr. Michael Fryzel, NCUA Board Member
Mr. Richard Metsger, NCUA Board Member