Hudson River Community Credit Union
Making Life Better

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May 14, 2014

MAY16'14 PM 2:22 BOARD

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

Dear Mr. Poliquin:

I am writing on behalf of Hudson River Community Credit Union (HRCCU), a cooperatively-owned financial institution with $182,000,000 in assets. HRCCU is located in the Capital/Saratoga Region of upstate New York and serves over 22,000 member/owners who live work or worship within Rensselaer, Warren, Washington and Saratoga counties and the Towns of Cohoes, Watervliet and Green Island.

HRCCU appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule: Prompt Corrective Action - Risk-Based Capital.

HRCCU supports NCUA's desire to enhance the safety of the industry and the alignment of the newly proposed rule with Basel III risk-based capital calculations. However, we feel that if enacted, this regulation would have a significantly negative effect on the way HRCCU and many other credit unions do business. As proposed, this regulation will: limit growth; the ability to invest, and significantly impede mortgage loan growth.

As to the actual regulation, HRCCU has several specific concerns. HRCCU questions NCUA's treatment of investments, their associated weights and the fact that the proposal does not address credit risks. When compared to the banking model, NCUA's model applies risk weights to investments based on weighted-average maturity, while the banking model is based on the credit risk of the investment. As NCUA is well aware, risk within an investment portfolio is not solely based on maturity. Case in point is the difference in how mortgages in the loan portfolio are treated versus those same mortgages placed into a mortgage-backed security (MBS) pool with government guarantees. There is similar interest rate risk between the two but the credit risk is significantly better with the pool. In the proposal, the MBS pool receives three times the risk weight, a completely inappropriate weight. Investments should be weighted on their credit risk not solely their maturity risk. As investments are major components of a credit union's balance sheet, this proposal will significantly impact a credit union's ability to go beyond a 5-year investment. HRCCU has adopted policies and strong management controls to ensure the diversification of our investments. **It is our recommendation that NCUA mirror BASEL III in the area of investments as it more accurately reflects the proper treatment of credit risk.**

In addition to the limited scope NCUA has taken in the treatment of investments, the proposal references recent losses on various asset classes like mortgages and home equities. After studying HRCCU's trend over a longer period of time than just the '07 through '11 recession, HRCCU has remained "well capitalized". In fact, most credit unions were able to successfully mitigate risk during this time and absorb losses because of their capital strength. As proposed by this regulation, the implied balance sheet structure will limit real estate lending regardless of the repricing structure of those loans and limit Home Equity loans/2nd lien mortgages.

HRCCU has prudently managed our real estate portfolio, with effective policies and dynamic controls. **We feel that the adoption of the various thresholds and risk-weights in the proposal will seriously hamper the ability to serve our membership putting unnecessary controls in place.**

HRCCU also would like to address the treatment of the NCUSIF deposit in the proposal. By subtracting the NCUSIF Capitalization Deposit from both sides of the equation indicates that this has no value and penalizes every credit union. **HRCCU asks NCUA to consider a more fair assessment of the NCUSIF deposit for the sake of all credit unions.**

In addition to the points expressed relating to the treatment of loans and investment, perhaps the most concerning is the ability of an Examiner to increase the required capital that a credit union will need to maintain. **HRCCU is extremely concerned with this arbitrary determination and feels strongly that it needs to be stricken from the regulation entirely.**

Finally, HRCCU wishes to address the 18-month transition period NCUA is proposing. Credit unions will need more time to plan for the new requirements proposed in this regulation. Many institutions will need to adjust their balance sheets to gain a more favorable position and this will take much longer than 18 months. **HRCCU asks NCUA to consider a longer implementation period to allow credit unions time to make the necessary changes required in this proposal.**

In summary, the Risk Based Capital requirements for the industry must be fair, balanced, and provide equal footing within the financial services industry. NCUA's goal of comparability across financial institutions falls short under this current proposal and significantly impedes growth of the credit union industry. While we do support changes in the existing Capital regulations, it is essential NCUA change those areas that are troublesome for the credit union industry. NCUA has tried to mirror the BASEL system but has excluded major components resulting in an inequitable regulation. If NCUA's goal with this new regulation is to "improve the comparison of assets and risk-adjusted capital levels across financial institutions" then we suggest that you simply emulate BASEL III. The credit union industry as a whole has managed well throughout the recession with minimal impact on the share insurance fund. Therefore, one must conclude that our current PCA capital system is not completely broken.

Thank you for providing the opportunity to comment on this proposed rule and for considering our views on risk based capital requirements.

Sincerely yours,

Sue Commanda

Sue Commanda, CEO
Hudson River Community Credit Union