Hudson Valley
Federal Credit Union®

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May 16, 2014

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

MAY20'14 AM 8:45 BOARD

Dear Mr. Poliquin:

On behalf of the Hudson Valley Federal Credit Union (HVFCU), we would like to take this opportunity to comment on NCUA's proposed risk-based capital regulation. As an institution that provides a wide variety of products and services throughout New York's Hudson Valley we are in favor of an enhanced risk-based capital system for credit unions. However HVFCU does not support risk-based capital reform as proposed by the NCUA. This proposal diminishes sound investments and loans, creates arbitrary risk weightings that would restrict the amount of capital that Hudson Valley FCU could otherwise return to our members in the form of rates, service and lower fees. The rule in its current state would create unintended negative consequences to consumers by way of higher fees, lower dividend rates and higher loan rates and reduction to service in an effort to grow net worth quickly to meet the requirements.

Specifically, NCUA is proposing assigning higher risk weightings to any investments that exceed five years in length and even higher weightings for investments with durations longer than 10 years. The problem with this "one size fits all" categorical approach to assessing investment portfolios is that it makes no attempt to categorize investments by the relative strength and weakness of the investments' underlying collateral and secondary market backing. For example, Hudson Valley invests much of its funds in federal government agency securities. Under NCUA's proposed framework, a ten-year bond backed by Fannie Mae would receive the same risk weighting as a ten-year bond issued by a troubled municipality. This lack of differentiation puts credit unions that emphasize due diligence and safety and soundness at a disadvantage to those that do not, at least in regard to their comparative capital strengths.

Similarly, NCUA categorically assumes that all CUSO investments should be given a 2.50 weighting. Hudson Valley currently invests in a CUSO and may look to invest further in CUSO activities should strategic opportunities become available. The strengths and weaknesses of CUSOs vary widely depending on the type of services and products being offered and the competency of staff. If a standardized risk weighting be necessary, we recommend that investments in CUSO's be weighted at 1.00, and then be assessed independently through the examination process to ascertain which may require a riskier weighting.

In addition to weighting certain investments too heavily against credit unions, the proposal also misjudges the quality of many loans. For example, NCUA is proposing a risk weighting of 1.50 for any member business loans that exceed 15% of a credit union's assets. As is the case with investments, by providing no means to differentiate types of MBLs, the strength of a loan's credit, collateral or the members' ability to repay, NCUA is not accurately reflecting the professionalism and experience the credit union exercises in making sound judgment on such loans.

If NCUA does finalize a more sophisticated risk-based capital framework, credit unions need much more time than eighteen months to implement this framework. Our Board and Management team will have to analyze the impact of the new rule and develop strategies to reconfigure our balance sheet to comply with these new capital requirements for the sustainable future all at a cost to our members. These strategies will take significant time to execute, and a three to five year implementation period would be much more appropriate to do so. Credit unions like ours do not have the ability to raise additional capital by alternative means which would indicate the need for more time, not less, than our banking counterparts to implement RBC requirements.

In conjunction with establishing a new RBC framework, NCUA should join credit unions to convince Congress of the need for our industry to raise secondary capital through alternative sources. As currently proposed, NCUA's risk-based capital framework will actually impede credit union growth. On the other hand, a more structured RBC framework in conjunction with secondary capital reform will better protect the system as a whole and allow individual credit unions to grow in response to member and potential member needs.

We believe that a properly structured RBC framework could and should guard against credit, liquidity, and reputation risk. In contrast, this proposal over emphasizes concentration and interest rate risks and does so in a way that would deter credit unions from making good loans and investments and being able to offer significant value and convenience to the consumer. I hope that NCUA makes several important changes to these regulations to address the concerns outlined above. We would also ask that NCUA offer a second comment period before any final rule implementation if significant changes are made to the current proposal.

Sincerely,

Mary Madden, President/CEO

Scott VanZandt, CFO

Cc: Noreen Hennessy, Chairman of the Board of Directors
David Bagley, Treasurer