LCU
Leominster Credit Union

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May 21, 2014

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

Subject: Comments on Proposed Rule: PCA – Risk Based Capital: RIN 3133-AD77

Dear Mr. Poliquin:

Leominster Credit Union (LCU) of Leominster, MA is a 50,000 member, $640 million community financial institution that was established in 1954. We would like to take this opportunity to comment on the Prompt Corrective Action - Risk Based Capital Rule (RBC).

While LCU understands the need for sound capital requirements, we feel that the proposed rule, as presently constituted, places credit unions at a distinct disadvantage with other financial institutions, namely banks.

One of the major aspects of RBC has been described as aligning what is required of Banks under Basil III with the newly proposed NCUA rule. There are several inconsistencies within RBC versus Basil III that put our institution into a weakened position and would force us to make balance sheet decisions that would not be in our best interest.

More specifically, the risk weights for investment securities under RBC do not fairly represent the risk associated with each type of investment. As an example, US Treasury securities (full faith and credit of the US Government) have a 0% risk weight regardless of maturity which implies that credit and interest rate risk is eliminated which **is** consistent with Basil III. Alternatively GNMA mortgage backed securities (MBS) get included with the average life risk weighted RBC version and forces risk weights up to 200% depending on the estimated average life of each GNMA MBS compared to a 0% risk weight for the Basil III calculation despite the fact that the GNMA MBS is guaranteed by the full faith and credit of the US Government. This difference alone places credit unions at a distinct disadvantage with Banks and flies in the face of appropriateness if an institution has a 5 year average life GNMA MBS that is weighted at 150% versus a 10 year US Treasury security that is weighted at 0%. The GNMA has the same credit support as the US Treasury and has a far better interest rate risk profile.

Additionally, FNMA and FHLMC securities are assigned, under RBC, risk weights between 20% and 200% depending on average life compared to Basil III where risk weights are at 20% which is a significant difference for institutions such as ours that have millions of dollars in US Agency backed MBS with average lives of 1-12 years.

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For Leominster Credit Union the differences within the Risk Based Capital calculation and Basil III if only comparing the investment portfolio differences in class risk weighting would change the Risk Based Capital Ratio from 9.76% as a credit union to 13.75% if LCU was a bank. Therefore under the newly proposed RBC approach LCU's RBC/PCA classification would change from "well capitalized" to "adequately capitalized" and would force us to make changes to the balance sheet that would lower earnings and increase interest rate risk which argues against this type of approach (due to the fact that our Board of Directors are dedicated to a "Well Capitalized" designation).

To further illustrate our point, the proposed RBC risk would weight a 2%, 40 year fixed rate residential mortgage in portfolio that has significant interest rate risk and credit risk at 50% (assuming within 25% of assets) and a 5%, 5 year average life US Federal Agency MBS at 150% under RBC despite the fact that the Agency MBS has far better interest rate risk characteristics and 99% less credit risk than the fixed rate portfolio mortgage. Once again this situation should not exist because it would be penalizing strategies that are safe and sound and could force institutions like ours into making decisions that are not in the best interest of the membership and would be placing the credit unions at a distinct disadvantage to banks.

There are several other aspects of the proposed RBC that are troubling for credit unions although we chose to isolate on the one area above that would affect LCU the most.

In closing, we would urge the NCUA to reconsider the proposed PCA – Risk Based Capital rule changes to help credit unions to continue to be competitive with banks and to re-evaluate the entire proposal with special attention to the risk weights of investment securities.

Leominster Credit Union appreciates the opportunity to comment on the proposed Risk Based Capital issue.

Sincerely,

Gary M Abrams

Gary M. Abrams
Executive Vice President
Chief Operating Officer
Chief Financial Officer