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Northern
CREDIT UNION
Banking on Excellence

May 22, 2014

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

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

Dear Mr. Poliquin:

On behalf of the Northern Federal Credit Union, our Board of Directors, Staff, and most especially our 28,838+ Members, we are writing to you regarding the National Credit Union Association's (NCUA) proposed rule entitled Prompt Corrective Action – Risk-Based Capital.

There are a number of issues that we have with the Proposed Regulation:

- The RBC Proposal ignores or fails to consider the funding side of the balance sheet when looking at risks associated with assets.
- The proposed Risk Weights serve to force Credit Unions into competitive disadvantage to other financial institutions.
- The Proposal calls for significantly higher marginal required capital within the Risk Weight categories as compared to other financial institutions.
- Inclusion in the proposal of section 702.105 Individual Minimum Capital Requirement.
- The consequence of incorporating all of the risks in the design of this proposed rule is an unfair advantage to banks, the same banks that brought this country to its knees.

We assert the Proposed RBC system is attempting to dictate to the Credit Union community an arbitrary and unsupported Concentration Risk limit and is layering on Capital for Credit Losses that are already captured in the Allowance for Loan Loss. Again, this all serves to put Credit Unions at a competitive disadvantage in serving our members. **Additionally, the arbitrariness of the Concentration Risk portion of the proposal, through tiered sub categories with an asset type based on % of Assets, will limit the ability of Credit Unions from building Capital in the only way that a Credit Union is legally authorized to build Capital, through Retained Earnings.**

<u>Imposing a Concentration Risk through the Proposed RBC serves to risk weight the balance sheet assets in isolation of the funding strategy employed to underwrite the asset and is inconsistent with how a credit union (or any financial institution) manages daily ALM decisions and is contrary to all modeling practices.</u> Our own Concentration Risk Policy states that the "Limit Guidelines" will in no way supplement, or supersede any other sections of the Policy or any other Policies of the Credit Union. "**The limits are used as a means of monitoring the composition of the Credit Union's assets and liabilities in order to address potential risks associated with concentrations. The subsequent analysis and proposed actions, if any, shall be controlled and limited by the Interest Rate Risk Management and Liquidity Risk policies herein**."

Watertown (Downtown)	Watertown	Adams	Gouverneur	Lowville	West Carthage
120 Factory St.	1180 E. Commerce Dr.	10924 US Route 11	145 E. Main St.	5801 Number 4 Rd.	88 Bridge St.
Watertown, NY 13601	Watertown, NY 13601	Adams, NY 13605	Gouverneur, NY 13642	Lowville, NY 13367	West Carthage, NY 13619
315.782.0155	315.785.5600	315.232.2990	315.287.0356	315.376.7303	315.519.1277

There are many areas that we believe should be revised or eliminated in the proposed Policy, but we have chosen to speak of obvious differences, and to also concentrate on those areas that will particularly harm Northern and its members.

- **MORTGAGES**: (Sec. 702.104)
  - By limiting the amount of portfolio mortgages (properly hedged and underwritten) we would be able to hold on our Balance Sheet, the NCUA removes one of the best tools we have to build profitable relationships.
  - BASEL III for banks ranks all 1 – 4 Family residential mortgages at **50% regardless of the concentration or maturity**. Is the NCUA Board able to explain how a Credit Union under the proposed RBC system is going to be able to compete with a Bank who must only count 50% of all of its portfolio mortgages, regardless of **lien** position, toward their Capital?
- **INVESTMENTS:** (Sec. 702.104)
  - Comparable allowed investments are only 0% to 20% Risk Weight for Banks. RBC proposes up to 200% as maturity increases for CUs.
  - We also question why Federal Reserve Deposits are not included in the 0% Risk Weighting category.
  - FHLB Stock: The Proposed RBC would require credit unions to include FHLB Stock in 100% Risk Weight whereas BASEL III allows Banks to use only a 20% risk weight.
- **MEMBER BUSINESS LOANS:** (Sec. 702.104)
  - Imposed Concentration Limit through tiered weights: If MBLS were 35% of a CUs assets, it would need to hold 15% Capital vs. only 10.50% for Banks.
  - The Proposed RBC system serves only to limit the creativity, talent, goodwill, and competitiveness of Credit Unions in serving the business community and therefore is another drag on our economy that is caused by bureaucracy.
  - There is an abundance of experienced commercial lenders who are part of the credit union community and there are numerous ways that Credit Unions can safely and soundly build this side of our business.
- **CUSO:** (Sec. 702.104)
  - Risk Weight 250% vs Bank's 100%. What is the quantifiable justification for this blatant inequity?
  - Not all CUSOs are the same.
  - Northern has 100% ownership of a CUSO that was formed to perform management service for Fixed Assets. The CUSO does not deal in financial instruments. Because it is a CUSO, its assets, fixed assets, would require 250% risk weight that normally would require 100% risk weight.
- **DELINQUENT LOANS:** (Sec. 702.104)
  - Management of our delinquency is covered by our Allowance for Loan Loss system.
  - ALLL must meet GAAP standards. What purpose does it serve to increase the Capital required weight by 50% over what Banks are required to hold?

    Again this is an arbitrary and unsupported requirement that only serves to put Credit Unions at a disadvantage with banks.

We reject the inclusion in the proposal of section 702.105 Individual Minimum Capital Requirement. The statement in the proposal that allows the Examiner the right to impose higher capital requirements must be removed completely. Inconsistency between Examiners is enough of a reason alone to inform the NCUA against attempting to adopt this dangerous and illegal move. Additionally, the Proposal indicates that higher capital requirements may be appropriate if a Credit Union has "significant" exposure to declines in economic value of its capital due to changes in interest rates". Like many other instances throughout the Proposal, the NCUA has not defined what is "significant" and therefore it is open to varying interpretations. Also, the NEV is measured at a point in time, a static measurement. Using NEV results as an indicator of perceived risk is not appropriate. It is a static measure and the risks you are attempting to measure would be more appropriately viewed through a dynamic approach. **We vehemently oppose this proposed course of action and respectfully request that any final Rule removes these provisions; it is mandated by the law that the NCUA obtains its authority from, the FCU Act.**

We know that the ability to serve our members through the mortgage relationship is the gateway or denotes a true and full relationship with our members. Therefore, we have enacted strategies that rely on the hedging ability of Non Maturity Deposits that is derived from the value proposition that we present to our members based on service, products, and convenience. **How we do what we do is the most important driver of our success.** The reward for that is the ability to utilize our members' deposits as a hedge to improve our earnings and then afford to enhance the services and products we can offer our members. In this way we build the opportunity to fulfill our Vision. The Risk Weights being imposed on 1st Mortgages, Other Mortgages, Member Business Loans, and CUSOs, will dramatically impede our ability to fulfill our Vision and will require us to develop strategies which may serve the purpose that the NCUA is striving for, but will harm our membership and will limit our ability to grow. We believe that it will also ultimately do significant damage to the Credit Union industry.

There is no justification combing all of the risks within the weighting system. It creates a competitive disadvantage for **all** Credit Unions. And most importantly, it eliminates the ability for Credit Unions to continue to provide a significant affordable alternative to Banks and provide a level of service that our owner members deserve. We ask that the NCUA slow down this process and evaluate all of the ideas being discussed in the numerous comments from Credit Unions, our trade associations, **300+ members of Congress** and individual members. The required time to make changes to our strategies to meet your proposed deadlines is extremely short and would impose a significant hardship to us and undoubtedly many other Credit Unions.

Thank you for the opportunity to submit our comments on the proposed regulation. Again, we hope that you and the NCUA Board will review and let our comments and the comments of fellow Credit Union industry members guide how you proceed.

Respectfully;

Gary E Rowe

Gary Rowe – Chairman – BOD
Northern Federal Credit Union
Watertown, NY

Daniel St. Hilaire

Daniel St. Hilaire – CEO
Northern Federal Credit Union
Watertown, NY