Raritan Bay Federal Credit Union

May 23, 2014

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

Via e-mail: regcomments@ncua.gov

RE: Comments on Proposed Rule: Prompt Corrective Action – Risk-Based Capital.

Dear Mr. Poliquin:

On behalf of the board of directors, management, staff and the nearly 9,600 members we serve Middlesex County, New Jersey, Raritan Bay FCU appreciates the opportunity to submit comments on the National Credit Union Administration's (NCUA) proposed rule Prompt Corrective Action – Risk-Based Capital (RBC). Raritan Bay FCU holds $75.5 million in assets, is a not-for-profit, financial cooperative, here to serve the hard working middle class by creating an environment of competitive products and services designed to meet our members' financial needs, while adding value to their lives. Raritan Bay FCU also prides itself on providing financial education and promoting consumer awareness and financial literacy to our members.

Despite being marginal ably profitable for the past 2 years, paying some of the highest dividends in New Jersey, maintaining low delinquency ratios and charge-offs, despite having over $15.3 million in real estate loans, and being rated "Well Capitalized" by the current net worth calculation system by over 10 bps, Raritan Bay FCU would be forced to take significant measures to remain "Well Capitalized". Under the proposed risk-based capital formula, Raritan Bay FCU appears to be rated only "Adequately Capitalized" and would likely have to take the following actions to bring us back to "Well Capitalized":

1) Reduce dividend rates
2) Curtail accepting deposits.
3) Discontinue offering real estate loans.
4) Restructure the balance sheet to sell off long-term loans and investments.
5) Increase fees to members to build capital.

NCUSIF 1% Deposit to be ignored

NCUA's requirement that the NCUSIF 1% deposit be ignored in the risk-based capital calculation should be reconsidered. The justification for removing the deposit is unclear, yet quite significant. The agency needs to provide a deeper explanation as to its reasoning for this proposed change.

Tel: (732) 727.3500 • Fax: (732) 727.2527 • www.rbfcu.coop
South River Office 93 Main Street • South River, NJ 08882
Main Office 491 Raritan Street • Sayreville, NJ 08872
Parlin Service Center 502 Washington Road • Parlin, NJ 08859

Examiner
While the need for flexibility within the proposed rule is understood, it is concerning that NCUA would propose arbitrarily applying a minimal capital requirement to a credit union. That type of flexibility, in our opinion, is beyond the scope and authority of this agency. This leaves a credit union open and vulnerable to an examiner's subjectivity and discretion.

RBC Implementation
Raritan Bay FCU feels that the implementation of a Risk-Based Capital (RBC) system would be detrimental to our institution. Even though it is necessary move for our industry for those who hold assets over $500 million, but not in the way this proposed rule details. Every credit union's balance sheet is unique, and while a risk-based capital approach in calculating net worth appears to be appropriate, we particularly disagree with the risk-weightings on member business lending and mortgages.

Member Business Lending
We call on NCUA to provide a better explanation of how the risk weightings for member business lending were derived and how justified. It appears that the risk weightings for member business loans, under the rule, suggest that credit union member business loans are much more risky than those offered by banks? It would not be cost effective for credit unions to spend the time and resources to implement, let alone sustain, a member business lending program if we cannot succeed within the scope of the regulatory environment that requires us to comply with the new rules.

Mortgage Loan Servicing Risk Rating
In our opinion, the mortgage servicing risk rating of 250% appears excessive. The result will be the unintended consequence of restricting access to affordable mortgage loans for credit union members. Again, similar to our aforementioned references to member business lending risk weights, the proposed risk weightings suggest credit union mortgage loans are more risky than those made by banks. Credit unions have often been the consumer's more affordable alternative to banks, but under this proposed rule credit unions may be a far less competitive alternative as the result will be the restriction of mortgage services in our efforts to comply with the new rule.

Implementation Date
Respectfully, Raritan Bay FCU would like for you to consider some changes prior to implementing this regulation. Our opinion is that you would be putting an undue burden on some credit unions by the short implementation date. We have all been in a recessionary environment since 2009, the burden of the NCUA Stabilization Assessments and the low interest rate environment has taken its toll on earnings. It is obvious that higher interest rates are on the way, and will provide some relief for compressed spreadsheets, but the improved earnings will not happen overnight. Please consider something more in line with a 3-year implementation period or longer.

Summary

Raritan Bay FCU had marginal grown in the past 2 years using the following strategies:

1) Offering a variety of consumer loans;
2) Offering real estate loans, primarily those with terms of less than 5 years or variable rate loans, all underwritten to very strict guidelines;
3) Minimizing the fees charged to members, and;
4) Trying to merging with smaller credit unions that are unable to survive by themselves in this economic environment.

The result of growing profitably the past 2 years, in a safe and sound environment, has enabled Raritan Bay FCU to pay dividends to members that are among the highest in New Jersey, manage our balance sheet such that we have ample liquidity, minimal credit risk, and our interest rate risk is minimal as well. Despite having a significant concentration in real estate loans, we are well within guidelines on the IRR and NEV shock tests.

This proposal, if enforced as written, would have the effect of forcing our credit union to curtail accepting deposits, discontinue offering real estate loans, sell some of our high-yielding loans and investments, reduce dividend rates, and raise fees to get the risk-based capital ratio back to the "Well Capitalized" category. Suffering from our actions would be the very members we are here to serve.

Conclusion

Thank you for the opportunity to comment on the proposed rule Prompt Corrective Action – Risk-Based Capital. If you should have any questions, please contact me at rbehrens@raritanbayfcu.org or 732-727-3500 x-200.

Sincerely,

Ronald C. Behrens

Ronald C. Behrens
President/CEO

cc: Deborah Matz, Chairman
Michael E. Fryzel, Board Member
Richard Metsger, Board Member