From:	Robert DesMeules
To:	_Regulatory Comments
Subject:	Prompt Corrective Action Risk-Based Capital Comment Letter
Date:	Friday, May 23, 2014 1:00:55 PM

Dear Secretary of the Board Poliquin,

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

Regarding: Comments Concerning Prompt Corrective Action Risk-Based Capital Proposal

Dear Mr. Poliquin:
As the CEO of St. Mary's Bank, The Nation's First Credit Union, I am writing on behalf of our credit union and our 87,000 members. St. Mary's Bank Credit Union presently holds $797 million in assets and is located in New Hampshire. The issue prompting our concern and comments is the National Credit Union Administration's proposed rule, Prompt Corrective Action - Risk-Based Capital.

The opportunity to voice our concerns is greatly appreciated. We respectfully request consideration for the many points outlined within, and we urge action in modifying the proposal.

The proposed Risk-Based Capital requirement would severely limit our ability to effectively serve members and restrict our future growth. Since our inception, members have relied upon our credit union for vital services including home mortgages and small business loans. We believe the proposed rule would result in limiting our ability to provide home and business financing and greatly harm our members. Our credit union is already hampered by the statutory cap on business lending, and we are unable to meet business loan demand in our market. Further restricting our business lending activities would be very problematic.

Credit unions are already well capitalized, and a change is not necessary.
St. Mary's Bank Credit Union and the credit union industry are well capitalized under the present requirements and have demonstrated the effectiveness of the present requirements by successfully weathering many economic challenges as clearly evidenced during the recent recession. We see no factual basis driving the proposed change.

Moreover, many risk-ratings within the proposal are faulty and do not reflect actual risk; and, in some cases, seem arbitrarily determined.
In particular, we take issue with Other Real Estate loans grouped within the Delinquent Real Estate Loans. Equity Lines and Loans comprise Other Real Estate Loans and do not warrant a risk-rating twice the level of first mortgages. At a minimum a loan secured by real estate should not exceed the risk-rating for a non-secured consumer loan, and there is a strong argument to risk rate it lower.
We also strongly disagree with the risk-rating for investments. How could a government secured investment require a risk-rating in the range of 100 to 200 percent? There is absolutely no credit risk on a government secured investment; long-term interest rate risk is negligible, and the instruments are the most liquid of any earning asset. Basel III assigns a 20 percent risk rating without regard to duration and includes a wider range of riskier investments that are not government backed.
CUSO investments do not represent a risk profile requiring 250 percent risk-weight; 100 percent is more than adequate to cover the operational risk. Basel III risk-weighting on this is 100 percent.

At no time should the NCUA be able to impose higher capital requirements on credit unions on a case-by-case basis. Risk ratings should be clearly defined and applied consistently across the board. Subjectivity should be excluded. The NCUA has other authorities to restrict or impose conditions upon how a credit union operates.
We take issue with other points in the proposal as well. When considering the calculation of RBC ratios, NCSUIF deposits should be excluded. Additionally, we do not believe the NCUA should be able to

restrict dividend payments as the proposal would provide. Credit unions must already seek permission to issue such dividends in advance at either the federal or state level depending upon their charter.

To effect any regulatory-imposed changes to risk-ratings and capital requirements, the implementation timeline must take into consideration the actions individual credit unions would need to take to change the composition of their balance sheets. A compressed timeline could require more drastic and potentially harmful actions than otherwise would be required if given the ability to take measured steps. A timeline of three to five years would be reasonable.

In summary, we find the proposal as drafted fundamentally flawed. Changes to the risk-weights need to be in alignment with, not more stringent than, the risk-weights imposed on community banks. Credit unions have operated responsibly and adhere to the current capital requirements that already serve the industry well. Credit unions exist to serve their member owners, and the proposal as drafted could curtail mortgage and small business lending activities, potentially robbing members of these essential services.

Thank you for the opportunity to share our views on the proposed risk-based capital requirements.

Ronald H. Covey Jr.
President and Chief Executive Officer

Sincerely,

Robert DesMeules
200 McGregor St
Manchester, NH 03102