CREDIT UNION of NEW JERSEY

May 27, 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:

I am writing on behalf of Credit Union of New Jersey, which serves New Jersey state employees and 200+ Select Employer Groups. We have over 43,000 members and $333 million in assets. Credit Union of New Jersey appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action - Risk-Based Capital.

Impact to Credit Union of New Jersey

Overall this new rule would have a material adverse impact on our credit union and our members. Credit Union of New Jersey would need to either cease or severely curtail making real estate and member business loans in order to remain Well Capitalized with a buffer equivalent to our current buffer. Based on our current balance sheet this equates to $5.4 million in additional capital we would need to build and retain.

To get there, in addition to the drastic changes to our balance sheet, we would also be forced to evaluate other aspects of our operation that are currently benefiting our members such as CUSO collaborations used to deliver added value and cost savings to our members as well as reduced dividends and increased fees.

Our members rely on Credit Union of New Jersey and the above actions would lessen the value proposition of our credit union. Our assessment of this new rule is that we would be spending the next several years focused solely on raising our Risk-Based Capital Ratio instead of serving our members, especially if there is no additional proposal to permit supplemental capital.

Need for New Rule

Respectfully, we don't agree the case has been made strongly enough by the NCUA that the credit union system needs this new rule. This opinion is based on the fact that during the last two financial crises the FDIC fund became technically insolvent while the NCUSIF did not which calls into question the need for this rule.

We believe the existing risk based net-worth requirements, along with other rules requiring credit unions to manage risk appropriately, to be sufficient. However, should the rule be adopted we offer the below comments.

NCUA's ability to impose higher capital requirements on a case-by-case basis

We oppose this provision of the rule. We are concerned as to how the case-by-case level of additional capital would be determined. Since all credit unions must manage their capital levels there should be clear, objective standards that prevent subjective standards being imposed on credit unions.

Proposed Risk Weightings

The proposed risk-weights for member business loans, real estate loans, investments and CUSO investments would put credit unions at a disadvantage compared to small banks under Basel III. Under Basel III there are no requirements for higher weights based on concentrations for mortgages, commercial loans or investments. This will limit our ability to offer these services.

Also, having the same weighting of 150% for delinquent unsecured and secured consumer loans is not logical as collateralized loans certainly result in lower overall loss ratios than uncollateralized loans. We suggest 100% for secured and 150% for unsecured.

These proposed risk-weights that increase capital requirements as concentrations increase will ultimately hurt our members as we will need to reduce concentrations, and ultimately service to our members, not because we are failing to manage risk appropriately but because, in our opinion, NCUA would be using the new RBC Rule in an attempt to eliminate ***all*** risks with one rule and effectively take that role out of the hands of our Board of Directors and Management.

Credit Union Service Organizations (CUSO's)

We do not understand why CUSO's are risk rated at 250%. CUSO's provide a vehicle for credit unions to leverage the power of collaboration to compete with banks and larger competitors. CUSO's are helping protect the system by allowing credit unions to find innovative and cost effective ways to deliver valuable services to their members. A 250% requirement will have a chilling effect on collaboration and render the system less competitive in the long run, far more threatening than the existence of CUSO investments on credit union balance sheets. We recommend CUSO's be rated at 100%.

NCSUIF 1% Deposit

NCUA's requirement that National Credit Union Share Insurance Fund 1% deposit be ignored in the risk-based capital calculation should be reconsidered. The justification for removing the deposit is unclear and questionable as to whether compliant with Generally Accepted Accounting Principles. We would see the removal as a signal to the credit union system the deposit is worthless and we will be required to write it down in the future.

Mortgage Servicing Assets
The risk rating of 250% is excessive and should be lowered. This risk weight will discourage investments in member mortgage servicing assets and result in less access to affordable mortgage loans for our members. This is one area where Basel III for banks has a tiered requirement, 100% for concentrations up to 15% of capital and 250% over 15% of capital. At the very least we suggest NCUA afford credit unions the same risk weighting. The proposed disparity between credit unions and small banks will render credit union mortgages far less competitive and less affordable.

Implementation Date
We respectfully request that you consider our recommended changes prior to implementing this regulation. We also request that you consider a longer period to implement so credit unions would have ample time to make the changes necessary to prepare for the new capital requirements. These changes will place a burden on many credit unions. We request a period of at least 3 years or more as banks will have up to 9 years to fully implement Basel III.

Summary
In summary we disagree with the need for this rule and believe that if adopted the requirements will have the effect of:

1. Forcing credit unions to curtail or eliminate many of the services our members expect from us;
2. Spending valuable time and resources on complying on a new rule instead of focusing on our members;
3. Rendering credit unions less competitive in the market place due to lower dividends, higher fees and less availability of key services such as mortgages and business loans;
4. Stifling collaboration and innovation currently being accomplished through CUSO's.

Conclusion
Thank you for the opportunity to comment on this proposed rule and for considering our views on risk based capital requirements. If you should have any questions, please contact me at ajaeger@unj.org or 1-800-538-4061, ext. 2118

Sincerely,

Andrew L. Jaeger, CCE
President/CEO

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