



May 22, 2014

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

RE: Comments on Proposed Rule: PCA-Risk Based Capital

Dear Mr. Poliquin:

Thank you for consideration of my comments on the NCUA's Risk Based Capital Rule on behalf of Members First Credit Union of New Hampshire. Our Credit Union was established in 1949 to serve the municipal employees of Manchester New Hampshire. We have grown to be \$149 million in assets and have a capital ratio of 9.27% (as of April). While our charter allows us to serve members within 25 miles of a branch, our main focus is our continuing relationship with the municipal workers of Manchester including teachers, police, fire and other city employees. We currently serve 13,000 members with three branches.

I believe the proposal, as it stands, will limit our credit union in serving our core membership that is not being service by banks. Please consider the following points.

Risk Based Capital Requirements for Real Estate:

The levels proposed for Mortgage Loans are excessive compared to the Basel III requirements for Small Banks. The higher levels proposed will restrict the amount of mortgages we will be able to keep on the books and give the small banks and unfair competitive advantage. Mortgage lending is a key component of our growth. We have experienced very few losses on mortgage lending, especially compared to the banks. Our allowance for loan loss adequately covers the credit risk in the mortgage portfolio. The rate risk is addressed in our asset/liability process with longer term asset rate risk offset by variable rate SBA securities. We view rate risk from an entire balance sheet perspective, for which we manage effectively. The proposed rule implies that the NCUA is attempting to manage the duration of the balance sheets of credit unions, especially on the asset side.

As we are a relatively small credit union, we need to keep responsible levels of mortgages on our books to maintain a margin that will help us provide the products and services to our members. Limiting our ability to provide essential support to our members will drive them to banks where they are treated as a potential for profit vs. where our credit union treats them as an owner.

Investments

A sound investment strategy is part of a sound Asset/Liability strategy. While credit risk is essentially eliminated from our investments, we find the weights to be unfair and restrictive compared to the BASEL III requirements for small banks. Again, it appears the proposed rule is an attempt to manage the duration of the investment portfolio as an individual component of the balance sheet. Our asset/liability process manages interest rate risk from an entire balance sheet perspective. The rule penalizes prudent duration management to achieve margins required to support our membership.

Most alarming to me is the rule proposes a 20% risk rating on variable rate Small Business Association (SBA) investments. We utilize these investments as a very effective tool in managing our duration and rate risk for the entire balance sheet. Placing a risk rating on these investments, fully guaranteed the United States Government and they float with prime rate is unwarranted. While these investments do have premium risk for excessive prepayment speeds, in no way do the premiums come close to being 20% of the investment value.

Implementation Period

The proposed rule allows only an 18 month implementation period which we believe is a very short time frame. We will be forced to fundamentally change the composition of the balance sheet as well as our strategic vision of the next 3 to 5 years to implement the changes. I would respectfully ask that the implementation period be 3 to 5 years to minimize the immediate impact to our balance sheet and membership.

Conclusion

We believe the proposed rule would unfairly limit our ability to serve our membership and would penalize the credit union for providing the products that our members of limited resources want and need. Credit Unions provide a unique haven for people who struggle with daily financial challenges. I urge the NCUA to make the necessary changes or eliminate the entire rule so that Credit Unions, such as Members First, can carry out our mission.

Sincerely,



Bruce B. Leighton
President & CEO
Members First Credit Union
Manchester, New Hampshire