Holyoke
CREDIT UNION

May 23, 2014

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

Via email: regcomments@ncua.gov

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

Dear Mr. Poliquin:

On behalf of Holyoke Credit Union (HCU), we appreciate the opportunity to submit comments on the National Credit Union Administration's (NCUA) proposed rule: Prompt Corrective Action – Risk-Based Capital (RBC). By way of background, HCU is a federally-insured, Massachusetts state-chartered credit union. As of April 30, 2014, HCU had total assets of $142.1 million and served 16,575 members.

HCU is located in Western Massachusetts. The communities that HCU serves are made up of predominately low- and moderate-income households. HCU's market area is also characterized by a hyper-competitive and over-banked financial services industry. However, in spite of these impediments, HCU continues to fulfill its mission of promoting the financial well-being of our member-owners. We firmly believe that HCU adds value to the communities that we serve. This being in stark contrast to many of HCU's very large bank competitors; whose recent record demonstrates a willful disregard for the well-being of many members of our society. We are therefore quite concerned that if the proposed rule is adopted as written, it will significantly diminish HCU's competitive standing by harming our ability to meet our members' borrowing and savings needs.

While we applaud the NCUA for working to promote a safe and sound credit union system through the rule-making process, we also believe that numerous revisions are necessary to the RBC rule as proposed in order to ensure that credit unions remain a potent force capable of meeting Americans' financial needs. We specifically address our concerns below and offer suggested improvements.

HCU supports our members' fundamental need for housing by offering competitively priced residential first mortgage loans. We believe that elevated risk-based capital charges for higher concentrations of residential mortgage loans are first unnecessary and, further, excessive

Holyoke Credit Union
P.O. Box 1398 • 490 Westfield Road • Holyoke, MA 01041 • Tel. 413-532-7007 • Fax. 413-534-2446
www.holyokecu.com

as currently proposed. For example, residential mortgage loans that exceed 35% of assets have a risk-weight of 100% in the NCUA proposal compared to 50% in Basel III. It is apparent that the other federal banking regulators understand the community banking industry to be well reserved for credit risk, interest rate risk, and liquidity risk at a 50% capital charge. The same should be true for the credit union system. HCU suggests that the NCUA establish the residential mortgage loan risk-weight at 50% regardless of asset concentration.

HCU strives to support economic development and job creation in the communities that we serve by offering member business loans (MBL). We believe the risk-weights proposed for member business loans are too high due to concentration escalation charges. Given that credit union losses on MBLs trend at about half the loss rates of community banks there is no reasonable justification for a 200% risk-weight at a credit union versus a 100% risk-weight at a community bank. HCU suggests that the NCUA establish the MBL risk-weight at 100% regardless of asset concentration.

HCU notes that concentration risk is not recognized in the risk-based capital frameworks of the other federal banking regulators. These regulators have devised a risk-based capital framework that seeks to identify the varying amount of risk among asset classes. However, their risk-based capital framework makes clear that they understand the riskiness of an individual asset does not increase or decrease in proportion to its percentage of the balance sheet. HCU urges the NCUA to abandon its use of increased risk-weights based upon asset concentration levels. This method is unreasonable and is not supported by valid empirical data. Further, it will not serve to promote a safe and sound credit union system and will certainly serve to greatly diminish the competitiveness of all credit unions.

The proposal, as written, is harmful to credit unions' traditional investment activities. The use of current weighted average life fails to adequately address interest rate risk. Credit unions have historically invested their members' shares in a conservative manner. Escalating risk-weights based upon current weighted average life is unwarranted. The NCUA should not require significantly higher risk-weights at credit unions as compared to those at community banks. HCU suggests the risk-weighting for government agency securities, including mortgage-backed securities and collateralized mortgage obligations, be set at 20%.

Under bank RBC standards, overnight deposits at a federal reserve bank are assigned a risk-weight of 0%. The NCUA's proposed RBC rule mandates credit unions use a 20% risk-weight for overnight deposits at a federal reserve bank. This difference is unwarranted and HCU suggests the NCUA reduce this risk-weight to 0%.

HCU believes the NCUSIF capitalization deposit has value and that its accounting treatment, recognizing the deposit as an asset on the books of the credit union, highlights a fundamental difference between the cooperative credit union system and the for-profit banking industry. We therefore do not believe it is appropriate to deduct the NCUSIF capitalization deposit from capital under the proposed risk-based capital rule. HCU asks that NCUA remove this provision from the proposed RBC regulation.

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Concerning delinquent loans, we agree with NCUA's proposed risk-weight of 150%. However, because NCUA has chosen to define credit union loans as impaired at 60-days past due, this risk-weighting is unfair to the credit union system. Under the banking risk-based capital framework a loan is considered delinquent when it becomes 90-days past due. HCU suggests that NCUA adopt 90-days past due to record delinquency. Adopting the banking standard would also serve to help interested observers, from outside the industry, such as Congress, the White House, the press, and the public, make better informed judgments about the credit union system.

HCU further suggests that performing consumer loans secured by an automobile not be combined with unsecured consumer loans. Auto loans should have a risk-weight of 50% and unsecured consumer loans a risk-weight of 75%.

The proposed risk-weight of 250% for mortgage servicing rights is excessive and should be reduced to 100%. Mortgage servicing rights represent a valuable member relationship. Selling long-term fixed-rate mortgage loans into the secondary market while retaining the right to service the loan and maintain the member relationship has been a viable strategy for mitigating interest rate risk. In addition, the NCUA should consider that establishing an excessively high risk-weight on the mortgage servicing right asset may have the unintended consequence of driving mortgage servicing away from the highly regulated credit union system and into the hands of loosely regulated or unregulated non-depositories; a result that runs contrary to current public policy.

Credit unions, alone among all other financial institutions, do not have access to sources of capital beyond retained earnings. Historically, this severe capital management limitation has had the beneficial effect of causing credit unions to operate in a more prudent, safe and sound manner than the banks they compete with daily. However, if higher capital standards are to be imposed on the credit union system under the proposed RBC rule, then the NCUA should refrain from implementation of the RBC rule until credit unions are provided the ability to raise supplementary capital.

HCU disagrees with the proposed RBC rule limiting the allowance for loan losses in the numerator calculation to no more than 1.25% of risk assets. A properly calculated and funded allowance for loan losses represents a first loss reserve. As such, this reserve should be fully accounted for in a risk-based capital calculation.

HCU believes the proposed 250% risk-weight for a CUSO investment is excessive. A credit union's loss exposure is limited to its initial investment in a CUSO. HCU is presently reviewing various CUSO relationships. The focus of this review is the consolidation of various administrative functions for the purpose of reducing operating expenses by achieving economies of both scale and scope. However, we fear that the inflated risk-weighting on CUSO investments may hinder collaboration among credit unions. HCU suggests the CUSO risk-weighting be set at 100% of a credit union's investment.

The proposed RBC rule provides the NCUA with a new authority to require a higher minimum risk-based capital ratio for an individual credit union based upon NCUA examiner

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discretion. However, the supervisory process to manage such a powerful and impactful authority is not addressed in the proposal. HCU strenuously advocates for the elimination of individual minimum capital requirements from the final version of the RBC rule.

Finally, HCU believes the implementation period is too short and will exacerbate the already heavy regulatory burden. The time period for implementation is unreasonably short at 18 months. The Federal Deposit Insurance Corporation has given banks with less than $15 billion in assets a five year implementation period. Given credit unions' inability to access supplementary capital, an implementation period of no less than 5 years is warranted.

In conclusion, HCU believes the current proposal requires significant revisions. The proposal, as written, is not a fair and reasonable regulation. The NCUA's RBC proposed rule is not comparable to those of the other federal banking regulators in that it will serve to severely diminish the viability of the credit union system. If implemented, as written, the rule will result in lower returns to credit unions and a diminished competitive position for the entire credit union system resulting in weaker capital positions over time.

Thank you again for the opportunity to comment on the proposed rule. We would welcome the opportunity to discuss our concerns with you or to respond to any questions you may have on our comments contained in this letter.

Sincerely,

Michael E. Murphy
President and CEO
Holyoke Credit Union
413-532-7007 Ext. 1103
mem@holyokecu.com

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