FIRST New England
federal credit union

May 23, 2014

Mr. Gerard Poliquin
Secretary to the NCUA Board
1775 Duke Street
Alexandria, VA 22314

Dear Mr. Poliquin:

Re: NCUA's New Risk Based Capital Proposal

On behalf of First New England Federal Credit Union (FNEFCU), I am commenting on the NCUA's proposed Risk Based Capital rule. FNEFCU is an $80 million multi SEG-based credit union in East Hartford CT. We have specialized in real estate lending for over a decade designing member-based rewards on core real estate products and starting a successful mortgage CUSO that has quadrupled its initial capital while serving 22 other credit unions. In order to limit risk we do not participate in indirect lending, member business lending, and have opted not to convert to a community charter. We value direct member relationships based on helping members with their homes, autos, and personal checking / loan needs. **NCUA's risk based capital proposal directly threatens this entire member focused business model** which survived the financial crises, rebuilt capital to pre-crisis levels, and maintains a real estate focus as before.

The risk weights are so far off base that the entire proposal needs to be rewritten or withdrawn. Instead of a laser focus on addressing the actual problems that led to credit union losses in the crises, NCUAs proposed risk weights metastasize the financial crises losses, projecting them forward based on arbitrary unfounded "concentration risk" theory. A risk based proposal needs to identify and target the real losses which NCUA experienced; exponential hyper growth in member business loans/participations, purchasing outside businesses without proper vetting and oversight, real estate hyper growth in "hot" real estate markets using poor underwriting, inadequate oversight of the corporate network, and real estate lending in geographic areas not connected to the credit unions core market. **The proposal does not target these risks. Instead it devalues credit union assets versus banks when analyzed on a macro level.** The effect of NCUA risk based proposal versus FDIC risk based system is to place credit unions at an extreme competitive disadvantage versus banks by requiring more capital. This makes no sense.

The risk weights put forward in the proposal will essentially force credit union management and Boards to focus on ALM concentrations over member interests. The risk weights that threaten our credit union directly and result in a downgrade of our well capitalized rating to adequately capitalized are:

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1. Second mortgages over 20% of assets –
   - The actual correlation to risk in this category is hyper growth, high LTVs (90 to 110%), and shoddy underwriting. HELOC and fixed second mortgages have different risk profiles yet in the proposal are lumped into the same risk bucket which rates them more risky than personal loans.

   - With no systemic analysis to support it, an across the board simplistic 20% cap is proposed that has the effect of tarring credit unions efforts to help members during the crisis using home equity fixed and variable rate loans. We successfully accomplished what banks did not during the crises; modifying and lowering payments for members. Now NCUA proposes to punish the effort under the nebulous unsubstantiated header of "concentration risk". **We believe that an essential function of the agency in the field is assessing concentration risks and validating the balance of risks taken with the outcomes at each credit union. The proposal replaces professional judgment in the field on this item with a misguided simplistic formula.**

2. CUSO investments –
   - Here the logical correlations to risk are the crash and burn propensity of new businesses in the startup phase, the risk profile of the line of business engaged in, hyper growth, and the ability to execute on a plan. Instead the proposal deems all CUSO investments equally risky. So the startup CUSO with no expertise is treated exactly the same as the CUSO that has doubled or tripled its initial capital over a decade.

   - Credit unions like ours are forever penalized for leaving earnings and capital in a successful CUSO which are risk weighted as the most risky investment credit union could make. The implications, ramifications of such treatment would be harmful and difficult to predict.

3. Mortgage servicing rights-
   - These assets were under extreme pressure during the financial crises as a low interest and high default rate environment deflated their value. Working with our CPA firm during the crises we reserved for the impairment in a crisis environment successfully managing the risks. Yet now as the asset values have rebounded dramatically to be at a premium versus book value, the proposal projects them as the most risky asset a credit union can hold along with CUSO capital. This makes no sense. The assets represent the value of members making payments on their homes over time. They have risk reducing countercyclical benefits and provide a steady stream of income generated from the member payments.

   - Under the proposal we will be penalized for helping to protect our members from the servicing abuses highlighted by the media over time even though as an asset it has performed well for us. Again no correlation to the targeted actual risks in this weighting.

4. Independent authority to set capital levels for each credit union is delegated by this proposal to examiners in the field. This is so dangerous and unnecessary it is not worthy of extended comment. Others have covered it well.

Our credit union has reduced risk with a focus on real estate. The crisis highlighted our ability to successfully diversify such risks. We have a balanced mix of variable and fixed rate mortgages in multiple maturity buckets that provide steady income streams and reduce credit risk. That is why we survived the worst real estate crisis in 70 years never falling below a well-capitalized rating with the same risk profile we have today. NCUA field level exams have validated this model over the past decade via on site exams. Yet now under this proposal, misguided formulas and risk weights will improperly downgrade us and threaten the entire model.

FNEFCU was at the forefront during the crises lending safely to our members, modifying mortgages, and allowing our members to take advantage of the government endorsed low interest rate environment to reduce their payments. We ask that NCUA not punish these efforts with a flawed risk based capital proposal that will achieve what the worst financial crises since the depression could not; the downgrade of our well capitalized rating. FNEFCU respectfully requests that this proposal be withdrawn.

Sincerely,

Michael Palladino
President & CEO