GREYLOCK FEDERAL

May 27, 2014

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

Dear Mr. Poliquin:

On behalf of Greylock Federal Credit Union, I would like to provide the following comment letter for the record regarding the National Credit Union Administration (NCUA) proposed Risk Based Capital (RBC) rule approved by the NCUA Board in January 2014. We appreciate the efforts of NCUA to develop contemporary capital standards for our industry and the opportunity to provide input on the current regulatory proposal. However, we believe the proposal, as currently constituted, would make our credit union less competitive with local and regional banks and decrease our ability to fully serve the needs of our current and potential Membership. We offer in this letter some suggestions on how NCUA's plan may be enhanced as you move forward in the rulemaking process.

Building capital during difficult times

During every type of cycle, from rapid growth to economic decline, Greylock Federal has continued to maintain its status as a well-capitalized credit union. We cannot imagine a scenario in which this will not remain our top institutional priority. Even so, in 2010 we revised our strategic priorities and placed capital restoration officially in our plan as our top strategic priority.

As of March 31, 2014, we have attained 8.70% regulatory capital ratio, and our strategic plan calls for continued progress until we reach at least 10% based on the current definition. The lessons we learned and the discipline we developed in expanding our capital base, even during the Great Recession, have served us well. They have also attuned us to the practical impacts of NCUA's proposed rule.

Greylock Federal Credit Union, 150 West Street, Pittsfield, MA 01201-9114
Phone (413) 236-4000 • Fax (413) 445-7295 • TDD (413) 443-0095
www.greylock.org

After thorough analysis, we are concerned that the rule as it stands would significantly constrain our ability to continue strengthening our capital position as we go forward based on the following:

1. Significant differences from FDIC requirements, making Greylock less competitive with banks
2. Disincentives to invest in CUSO activities
3. Lack of clarity on supplemental capital
4. NCUA's treatment of risk weighting for MBLs is at odds with its handling of Low Income designation
5. Investment risk weights appear illogical and will hamper effective ALM strategies
6. Uncertainty with regard to capital targets due to examiner discretion.

Each of these points is supported below:

1. **Significant differences from FDIC requirements** – The Summary section of the proposed rule as published in the Federal Register indicates that the new requirements would "be more consistent with … risk-based capital measures used by the Federal Deposit Insurance Corporation" and other federal agencies. Our analysis, however, indicates the contrary. The proposed rule diverges considerably from FDIC standards. In fact, Greylock's risk-based net worth based on 3/31/14 data would appear to be as much as 360 basis points higher under FDIC standards, as compared to the 10.62% result produced through the calculator provider by NCUA.

   To achieve the same level of risk-based capital under NCUA's proposed standards that we now show under FDIC's current guidelines, Greylock would need to raise more than $30 million in additional capital. This means $30 million less being put to work in our community and in the lives of our members in the form of loans, dividends and service enhancements at Greylock. According to the proposal, the NCUA set out to create a risk based capital framework that would parallel FDIC standards yet be tailored to the unique structure of credit unions. Indeed, the 10.5% ratio NCUA has established is consistent with Basel III requirements. However, similarities between the two measurement systems are not reflected in the actual risk weightings for various asset types.

   Significant differences in the risk weightings greatly distort the capital picture when comparing banks and credit unions. Imagine a depositor choosing between a bank and a credit union, each with identical balance sheets, as a home for a primary financial relationship. The bank shows 14.22% in risk based capital; the credit union 10.62%. Which one will appear more solid and well-managed? Most in the industry would agree – and the Great Recession proved – that the credit union model is by its nature more stable and conservative than the banking structure. For example, credit unions are constrained to what many might consider "plain vanilla" investments. Most are limited in the amount of interest that can be charged on a loan and the amount of business lending is statutorily limited for most credit unions. Likewise, credit union membership growth is dramatically limited by our charter and field of membership. When NCUA's proposed capital standards erroneously depict Greylock as $30 million weaker than a bank with an identical balance sheet, something is very wrong with the standards. ***We urgently request that NCUA support the viability of the credit union business model by bringing its RBC Rule Proposal more in line with FDIC's approach, particularly as it relates to the risk weighting of various asset categories.***

2. **Disincentives to invest in CUSO activities** – Greylock has demonstrated a successful and prudent approach to CUSO investments and operations for more than ten years. Last year, our CUSO operations provided $696,914 profit or about 15% of Greylock's net income. While we recognize that not all credit unions have been as responsible as Greylock in the management of their CUSOs, we cannot support the arbitrary risk weighting of 250% - the highest risk weighting applied to any asset under your proposed rule.

   A seemingly arbitrary risk weighting of this magnitude would likely lead to credit unions pulling back from the collaboration and innovation that has characterized CUSO development to date. This would be detrimental to the credit union movement and could actually lead to increased risk, since institutions may turn away from cooperative CUSO models – which NCUA can supervise through the credit unions investing in them – and toward outside vendors who are not under NCUA's oversight in any meaningful manner.

   Our CUSO focuses on services that are not deemed high risk by the NCUA, and we fail to understand how this investment would warrant such a high risk weighting. ***We feel strongly that credit union investments in CUSOs should be weighted at 100% and managed through the normal supervisory process. Any weighting higher than 100% should not exceed 150% and only be applied to CUSO activities that are clearly demonstrated to be higher risk.***

3. **Lack of clarity on Supplemental Capital** – Greylock received a Low Income Designation in February 2014, making our credit union eligible to create and offer Supplemental Capital Accounts. With no existing guidelines in place to establish NCUA's parameters for doing so, the RBC rule seems an ideal and even necessary opportunity for NCUA to include criteria and specifications for credit unions to supplement their capital through a statutory and regulatory authorized program that is now available to over 2000 low-income designated credit unions. ***We respectfully request that NCUA enable Greylock and other Low Income Designated credit unions to evaluate Supplemental Capital opportunities by adding the appropriate language and guidance to the RBC Rule.***

4. **NCUA's treatment of risk weighting for MBLs is at odds with its handling of Low Income designation** – When Greylock received its Low Income Designation in February 2014, we became exempted from the 12.25% cap on Member Business Loans. We understand this to be part of NCUA's strategy of enabling credit unions in low income areas to provide more support for small businesses as a boost to struggling local economies. Based on this understanding, we find the MBL risk weightings in NCUA's proposal to be counterproductive.

   The proposal places a heavy financial burden on a credit union once the institution's business portfolio reaches 15% of assets. This burden reaches a weighting of up to 200% for MBLs exceeding 25% of assets. This financial burden imposed through the RBC framework runs against the intent NCUA demonstrated with the provisions of the Low Income Designation. Further, the proposed rule would make credit unions less competitive with banks as the FDIC risk weights business loans at 100% regardless of the percentage of assets. The language of the proposed rule seems to be implying that credit unions are less capable of effective underwriting and commercial loan portfolio management than banks. We recognize the risk entailed with business loans and have recruited a team of experienced professionals who use robust underwriting standards and tracking processes to ensure safe handling of our MBL portfolio. ***We ask the risk weighting for MBLs be changed to 100% at all percentages of capital in the RBC rule, or at least that the 150% weighting be applied at the 25% level rather than 15% of assets.***

5. **Investment Risk Weights appear illogical and will hamper effective ALM strategies** – NCUA's proposed Risk Weights for investments do not appear consistent with proven ALM strategies and would significantly increase the capital requirement for Greylock versus a bank with a similar balance sheet. In its proposed rule, NCUA indicates that it seeks to address interest rate risk as well as credit risk; yet, the decisions reflected in the proposed language appear based on a reaction to the current interest rate environment rather than to long term effective ALM strategies.

   For example, all Treasury securities and those guaranteed by NCUA or FDIC carry a 0% risk weight, no matter the maturity. Yet other types of securities with no credit risk, such as securities guaranteed by Fannie Mae or Freddie Mac or fully-insured time deposits in other financial institutions, are risk weighted based on weight average life (WAL). For these securities, investments of 5 years or greater WAL carry such a punitive level of risk weighting (150% for 5-10 year WAL and 200% for 10+ WAL) that these maturities would be longer play a role in balance sheet management. As another example of illogic contained in the proposed rule, a 30-year mortgage on Greylock's books will carry a 50% risk weight while that same mortgage in a Fannie Mae pool with 5-10 year WAL would carry a 150% risk weight.

Based on our analysis, the rule does not appear to contemplate whether interest rate risk is balanced with our overall ALM approach and appears slanted in a way that strongly discourages longer-term, fixed rate securities. This section of the proposed rule is one of the most troublesome for Greylock; as noted above, our Risk Based Net Worth would be some 360 bps lower in RBNW than a bank with a comparable balance sheets, meaning that NCUA would require an additional $32 million of capital for Greylock to compare favorably to a bank with an identical balance sheet. The investment weighting section of the proposal is a major factor contributing to this disparity. ***We request that the risk weighting on investments under NCUA rules be made equal to that of the FDIC, in line with the intention expressed in the introductory portion published in the Federal Register. In no case should any investment risk weighting exceed 100% as the most that can be at risk, even in the most extreme of absolute worst case scenarios, would be the total amount of the investment.***

6. **Uncertainty with regard to capital targets due to examiner discretion.** -- As noted above, the expansion of our capital base is Greylock's #1 strategic objective and has been for the past four years. Because the methodologies for calculating capital have been clear and transparent, we were able to gain strong consensus on this strategic direction within our Board of Directors and Senior Management. We are also able to communicate clearly with all employees and our member/owners. This has been challenging at times since our members have, of course, been seeking higher dividend rates and lower loan rates. But we have strategically and effectively held the course, having been able to explain our capital building needs and the benefit to them of an even better capitalized credit union in a logical manner.

   The kind of consistency and transparency that has enabled this level of discussions by our Board of Directors and management with our membership is frankly threatened by the language in the proposal that enables an examiner to increase our individual risk-based capital requirement by subjective action during an examination. We foresee a constant second-guessing by Management and the Board with "what if" scenarios that are impossible to forecast, since they rely on examiner discretion rather than observable and objective facts. ***We request that this provision be removed in its entirety.***

Thank you very much for the opportunity to comment on this proposed regulation. We support the efforts of NCUA to pursue a balanced risk-based capital system that requires additional capital of truly higher risk credit unions even as it rewards those credit unions with proven risk management evident in a lower risk balance sheet. While we do not believe the current proposal is sufficiently balanced and should be withdrawn if it cannot be perfected, we respectfully encourage NCUA to consider some of the recommended improvements to the proposal contained herein. With the right changes, this rule can become a source of long-term viability of the credit union charter.

If I can be a source of any further information on this comment letter, please do not hesitate to contact me.

Sincerely,

Marilyn L. Sperling

Marilyn L. Sperling
President and Chief Executive Officer

cc: Senator Elizabeth Warren
Senator Ed Markey
Congressman Richard Neal
NCUA Board: Debbie Matz, Michael Fryzel, and Rick Metsger
Greylock Chairman: Gerard E. Burke