New England Federal Credit Union

May 27, 2014

Mr. Gerard Poliquin
Secretary of the Board
NCUA
1775 Duke Street
Alexandria, VA 22314-3428

Dear Mr. Poliquin:

Thank you for the opportunity to comment on the proposed rule for Risk-based Capital. We are largely supportive of an effort to measure risk on a credit union's balance sheet in an effort to ensure that sufficient capital exists to mitigate the risk. As a federally insured credit union, we expect that the NCUA will adopt a Risk-based capital rule that appropriately measures the risk to the fund and ensures that all credit unions are protected from avoidable systemic risk. We believe that the proposed rule could be improved in a few areas.

Credit / Interest Rate Risk

There are several examples in the proposed rule of confusion or crossover between interest rate and credit risk. The proposed rule appears to meander between the two types of risks without clear rationale. For instance, Treasury securities carry a lower capital requirement than other investments regardless of maturity. Agency securities carry a higher requirement and there is differentiation between different maturities. Given the implied guarantee of Agency securities, as tested through the recent financial crisis, this differentiation is confusing and not justified. Our understanding of Risk-based capital requirements for banks is that the focus is on credit risk. We believe the requirements for credit unions should be based on the same principles.

In addition, there does not appear to be consideration given to interest rate risk mitigation tools in this proposal. At NEFCU, we have historically used longer term FHLB advances to purchase longer term mortgage-backed securities. These advances serve to offset the interest rate risk of the securities. Under this proposal, it appears this important interest rate risk management tool is ignored. The regulation should make adjustments for liabilities that are used to offset interest rate risk of certain assets.

CUSOs

The capital requirement of 250% for CUSOs appears to be excessive. CUSOs represent an important source of non-interest income for credit unions. In addition, they can also represent important diversification of income. We believe it is more appropriate to start at a weight of 100% and manage exceptions through the exam and supervision process. If a specific CUSO is deemed to be of higher risk in a given situation, the NCUA could impose a higher requirement for that credit union.

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Mortgage Servicing Assets
The 250% risk-weighting for mortgage servicing assets appears to be excessive. The value of mortgage servicing assets does rise and fall depending on the current rate environment. However, current accounting rules dictate that periodic valuations must be done and impairment must be measured and recorded. This impairment is most often temporary in nature and will eventually be reversed. The practice of originating and servicing mortgages is an important source of non-interest income for credit unions. In addition, this practice is of significant importance to members who want to obtain mortgages from their local credit unions because of the local servicing. Regulations should be more supportive of credit unions' ability to be in this business rather than setting a prohibitive capital requirement.

Thank you for the opportunity to comment on this important regulation. We believe the final rule should fairly represent the risk that the credit union's balance sheet poses to the NCUSIF, and should not put credit unions at a structural disadvantage when trying to meet member needs in a very competitive marketplace.

Sincerely,

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