Connex
CREDIT UNION

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May 27, 2014

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

Re: Nation Credit Union Administration; Prompt Corrective Action – Risk Based Capital; 12 CFR Parts 700, 701, 702, 703, 713, 723, and 747; Federal Register Volume 79 Number 39, February 27, 2014.

Dear Mr. Poliquin:

Recently the NCUA proposed and asked for comments on their PCA Risk Based Capital (RBC) proposed regulation. This letter is in response to your request for comment on this proposal.

Connex Credit Union has been serving our membership in Connecticut for almost 75 years. We have done this by creating a community of lending and investing for our membership. We are member based and member owned. As of December 2013, our credit union had approximately $400m in assets and a Net Worth ratio of over 12%. Based upon the RBC Simulator, our base case RBC would still exceed 16.45%. So, on the surface, it would appear that Connex would not be materially impacted by this proposed rule. I am writing to you today to suggest otherwise; despite our healthy net worth ratio, there are still valuable considerations that compel me to write you today.

While standards are needed to ensure the safety of the industry as a whole, imposing these types of rules will not help the industry to continue to serve their membership. If the purpose of a capital standard is to minimize losses to the deposit insurance fund, our industry would argue that we performed very well under the current PCA rules. As currently proposed, this rule would severely limit the ability of Credit Unions to meet the growing needs of our members.

Respectfully, I continue to struggle to understand why our regulator would want to make it harder for credit unions to compete with our community bank counterparts. As a credit union with over 12% Net Worth, we already hold ourselves to a higher standard, but imposing regulations that would inhibit our ability to compete with banks is not the answer. I am confident that the NCUA understands that credit unions were not part of the problem in the most recent economic crisis; we were part of the solution, particularly for our members. The risk weightings in the proposed rule are <u>more</u> stringent than the Basel risk weightings for small community banks. Historical data would support that the proposed risk weights were not properly set to reflect that credit unions' risks have been lower than those of small community banks, particularly in the treatment of mortgages and small business loans.

As we continue to plan for the future, to deal with the current economic pressures, to adjust to increasing regulatory burden, and to source alternatives to threats against interchange and fee income, we continue to evaluate the addition of a greater number of mortgage loans and the consideration of an investment in small business lending platform. These growth opportunities are impacted by the risk weightings proposed in the rule, and again make it more difficult to compete with our small bank counterparts. Notwithstanding the risk weighting differential, there is even language within the proposal to suggest that a credit union with a growth strategy that may be performing within the guidelines and performance metrics may have to alter their strategy and direction by means of a provision that allows for "case-by-case capital requirements".

Connex recently started a wholly-owned CUSO dedicated to providing insurance products to our members. As we continue to think about growth and acquisitions in this arena to gain efficiencies and scale, we are now mindful of the 250% risk weighted charge this will have. We have made available all financial information relative to the CUSO to our regulators and external auditors, so there is complete transparency to our investment. Similarly, any other investment in CUSOs we consider, as we and our industry looks for ways to become more efficient together, will be impacted by this negative charge to capital.

Furthermore, the NCUA is required under the Federal Credit Union Act to take into consideration the unique structure of credit unions when implementing its risk based net worth rule. In proposing this standard that essentially adds billions of additional capital buffers to the system, it does not adequately address a supplemental capital mechanism to assist credit unions now or in the future. It is short-sighted, by requiring capital to be raised through earnings alone, and puts additional burden on credit unions to choose between raising loan rates and fees, lowering deposit rates, or not offering consumers and businesses the products they need. These actions would be counter to the fundamental reasons that credit unions are in existence.

Lastly, it is compelling that the NCUA proposes an implementation period restricted to 18 months, particularly when considering the BASEL discussion started in 2010 and will not be finally implemented until 2019. The implementation period in the proposed rule is unreasonably short and would unduly burden marginally capitalized credit unions; it will also hinder credit unions like Connex that want adequate time to plan for changes that this rule will have to their current strategic direction, or consider alternatives to capital growth that not currently available.

In summary, I would highlight the following points to consider:

1. It is not apparent that the NCUA has established the substantive need for this proposal given the performance of credit unions during the most recent economic downturn.
2. The proposed rule would hold Credit Unions to relatively higher risk weighting standards than small community banks, when historical data suggests otherwise.
3. The proposed rule effectively limits growth opportunities for credit unions by excessive constraints on mortgages and small business loans.
4. Current and future investments in CUSOs, which we view as a good thing, will be negatively impacted under the proposed rule.
5. There is no corresponding proposal that addresses supplemental capital as a means to address future capital needs and considerations.
6. The proposed implementation period does not provide sufficient time to strategically plan for this change.

Connex Credit Union and other credit unions are working daily to provide services that are desperately needed. Please do not impose rules that would inhibit our ability to help the members of our community.

Thank you for the opportunity to provide input into the proposal.

Sincerely,

Frank Mancini

Frank Mancini
President and CEO
Connex Credit Union