nutmeg state
FEDERAL CREDIT UNION

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

Dear Mr. Poliquin:

On behalf of Nutmeg State Federal Credit Union, I would like to comment on the National Credit Union Administration (NCUA) proposed risk based capital rule. I appreciate the opportunity to provide my thoughts on this regulatory proposal and to express some of my concerns about the potential negative impact of the proposed rule on credit unions if finalized in its current form.

A review of the calculations on the NCUA website indicates that Nutmeg State FCU would remain well capitalized in the proposed system, but our capital cushion would shrink by a total of $4,638,728 if the proposal were in effect today.

Nutmeg State FCU now has a cushion well capitalized equal to 626 basis points of total assets yet the proposed rule would reduce this number to 495 basis points of total assets, thus causing a .00363022 basis point change in Nutmeg's cushion of over well capitalized levels.

Another concern I have about the proposal is how the RBC ratio will be calculated as the process will involve new accounting processes and training of staff to properly enter the information. With a staff of 79 employees (as of May 15, 2014) I'm sure you can understand the impact this rule change will have on Nutmeg State Federal Credit Union's Finance Department and I ask that you please do not add more reporting to an already overburdened load to comply with the new regulation.

In any event, the effective date of the final rule implementation should be end of year 2018. It will likely take until 2015 before a final risk-based capital rule can be approved. Once the regulation is final credit union earnings will have to be balanced with the risk weighting of the assets. Some investments will have to be shortened. Some loans will have to be divested - or at least the position in those loan categories adjusted. Credit unions need a minimum of three full years to prepare for this regulation once it is finalized.

Lastly, we have concerns about the affect the new rule will have on Goodwill. Currently, intangibles resulting from a credit union merger are not included in the numerator of the net worth ratio. This causes a reduction in the net worth ratio for non-goodwill intangibles which (a) are not included in the numerator (only undivided earnings are allowed) and (b) are deducted from the numerator when amortized. So, while we agree with the proposed treatment of goodwill and intangibles for risk-based capital, it is predicated on a balanced treatment. In other words, we only deduct those items initially included, and only deduct to the extent of the current (net) asset.

Thank you again for allowing a forum in which Nutmeg State Federal Credit Union can provide our thoughts on this new rule.

Warmest Regards,

John Holt

John D Holt
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