



# Boston Firefighters Credit Union

*Simple and Honest Banking*

60 Hallet Street, Dorchester, MA 02124

MAY2014 ANNUAL BOARD

May 23, 2014

Mr. Gerald Poliquin  
Secretary of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-3428

Dear Mr. Poliquin:

Boston Firefighters Credit Union (BFCU) appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action - Risk-Based Capital. BFCU is a well-capitalized \$200M CU serving 6,700 members in Dorchester, MA. BFCU appreciates the agency's efforts to implement risk-based capital to maintain the financial strength of the credit union industry; however, as currently proposed the rule would unnecessarily restrict growth and not serve the purpose of more precisely identifying risk in the credit union system. BFCU respectfully offers the following comments to assist the agency in its consideration of potential revisions to the proposal.

BFCU is a very well-capitalized credit union and as such, is not likely to be adversely affected by the proposed rule. I have run a number of hypothetical scenarios using various growth strategies and changing the asset mix of the credit union and find that we remain well-capitalized in all tested examples. I have, however, learned through these exercises that subtle changes in the composition of the credit union's balance sheet can create a dramatic impact on risk-based capital. Using our balance sheet as an example, a decrease in the short-term investment portfolio by approximately 6% of assets and a corresponding increase in well-performing mortgage loans adversely lowers our capital position by more than 250 basis points. This is an important consideration particularly in light of the rate environment in which we operate. BFCU has chosen to keep a significant portion of our assets in shorter-term investments and thus forego current yield so as to be positioned for a potentially rising-rate environment. Since we hold a large portion of fixed-rate real estate loans, this barbell strategy makes sense and tests well in our ALM metrics. However, if and when rates normalize, we could very well wish to return to a more fully-invested or more fully-loaned asset mix and would see dramatic changes in our risk based calculation as a result.

This illustration serves as a starting point for the problems that I see associated with the proposal. Assumptions are being made and demonstrated by way of increasing risk weights that certain categories of assets contain significantly more risk as the percentage of that type asset increases (i.e. mortgage risk weightings increase from 50% to 100% as the percentage of total assets increases). This is not the case in the Small Bank Basel III risk weightings nor should it be the rule for credit unions.

It seems as if the proposed rule has been designed to remove both interest rate and concentration risk from the balance sheets of credit unions without the need for supervision and regulation at the individual credit union level. This is illustrated by the fact that the proposed system makes no allowance for a credit union that utilizes various liability strategies to counter the interest rate risk presented by the additional mortgage loans in the example cited above. The use of derivatives or long-term FHLB advances would not be considered in the model. Therefore, a credit union may be using an effective hedging strategy and its ALM metrics may show interest rate risk neutrality when a complete two sided strategy is considered, yet this model would project a lower capital ratio and could create a prompt corrective action where one is not needed.

While I have chosen to focus on real estate loans due to the fact that we engage openly in this business, much of the same can be said for member business loans where the increase in risk-weighting as the concentration grows creates a top tier weight double that of the banking standard.

An additional point of concern with the proposal is the exclusion of the 1% NCUSIF deposit which could further the argument of our political opposition when they have frequently suggested that this deposit should be written off. Failure to count it in the calculation seems to take a step in that direction or at least perpetuate the argument.

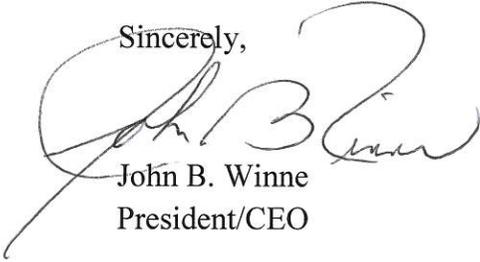
Finally, the proposal as written allows for an examiner to arbitrarily impose additional capital standards on credit unions. It is my opinion that there are enough tools in the current examiner tool box to allow for effective supervision and regulation without adding a hammer of this size. Anytime a single examiner has this type of discretionary authority it is a point of concern for the industry.

Once again, thank you for providing the opportunity to comment. As a very well-capitalized credit union, we expect others to be held to a high standard. We truly understand the ramifications on our mutual insurance fund when a credit union is mismanaged that translates into losses which must then be absorbed by us all. However, we feel that this proposal is incomplete and goes too far in its treatment of the asset side of the balance sheet. We feel that risks such as interest rate and concentration risk are unique to the individual credit union and need to be evaluated individually. We understand that this is virtually impossible in a one-size-fits-all model and thus feel that

these risks should be evaluated as they are currently through the examination process when the complete picture of a credit union can be looked at by the trained eyes of an examiner and not be constrained artificially by regulation.

We remain hopeful that meaningful changes will be made to the proposal as the NCUA board and staff considers the comments of the many industry professionals and other interested parties who have taken the time to write. Best wishes for wisdom and success as the process continues.

Sincerely,

A handwritten signature in black ink, appearing to read "John B. Winne". The signature is fluid and cursive, with a large initial "J" and "W".

John B. Winne  
President/CEO