Merrimack Valley FEDERAL CREDIT UNION

May 20, 2014

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

I am writing on behalf of Merrimack Valley FCU which serves the communities of the Merrimack Valley in Massachusetts and New Hampshire. We have over 44,000 members and $500 million in assets. Merrimack Valley FCU appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action - Risk-Based Capital.

I am strongly in favor of a risk based capital system; however, significant adjustments need to be made in the current proposal. I believe fundamentally that a credit union with greater risk should maintain capital commensurate with that risk while a more conservative credit union should be required to hold less capital.

MVCU has a Net Worth ratio of 9.93% as of December 2013 which is 42% greater than the 7% required to be Well Capitalized. MVCU has a strategic target to maintain Net Worth between 9.50% and 11%, which we have achieved for many years. This excess capital helps in times where we see asset fluctuations, increased chargeoffs and other unexpected economic events. We run analysis on our balance sheet quarterly using our ALM process to make sure we remain within our risk tolerance limits. While we recognize it may not be possible, the best capital system would be one in which each credit union works with their highly qualified risk professionals to measure their risk and establish appropriate net worth levels instead of a "one size fits all" system that is in the proposed rule.

According to the Risk Based Calculator on the NCUA web site MVCU would have a Risked Based Capital ratio of 12.7% as of 12/31/13. While we still maintain a "Well Capitalized" position under the proposed rule, we reduce our excess capital from 42% down to 21%, or from $14.7M to $8.2M. While we still maintain a "Well Capitalized" position under the proposed rule, it concerns us that we may be limited to the services we will be able to provide our members in the future and our ability for growth. The fact that we can only add to our Net Worth through earnings puts further limitations on us.

The current Risk Based Net Worth rule requires adequate capital at 6% while the proposal requires a well-capitalized ratio of 10.5%. This puts us at a major disadvantage with our banking competition that have a much smaller requirement. We would like the 10.5% requirement revisited in the proposed rule.

A major concern is that even if we have enough capital be considered "Well Capitalized" at 12.7%, NCUA would have the authority to impose even higher capital requirements on a "case by case" basis. We would ask that this authority be taken out of the rule.

After reading the proposed rule several times, I am having issues with all of the proposed risk weights established. Again, it is a "one size fits all" approach. More specifically are my concerns for the following weight limits:

Member Business Loans – MVCU has been putting an emphasis on Business Lending as we see the need in our community for this service to the smaller business that are being turned away from the banks. MVCU has the expertise on staff and also engages further expertise using a third party CUSO. The proposed rule puts in a huge escalator when MBLS reach 15% of assets. The escalator is a weight of 150% and increases to 200% when MBLS reach 25% of assets. There is not a need for an escalator in the increase concentration of MBLs. The current CAP in place is 12.25% of assets. A waiver could be requested to go above that which would require that the expertise be in place to handle such concentration.

Mortgage Loans – Credit Unions, as an industry, have been doing mortgages for several years and have been doing them well. MVCU, during the height of the financial crises, carried no more than two OREOs at one time and our losses were minimal compared to the banking industry. There is an escalator for mortgages from 50% to 100%. Under Basel III banks are left with the risk weight of 50%, again giving our competition a greater advantage.

Investments – There is a huge disparity in the weight of a government back bond with a WAL of 5 years at 150% and a 30 year mortgage at 50% if the mortgage portfolio is less than 25% of assets, ignoring the credit risk portion of the investment. There is also a zero risk-weighting on Treasuries, ignoring the interest risk portion of that investment.

Mortgage servicing rights – Under the proposed rule mortgage servicing rights are weighted at 250%. Mortgages are sold and serviced to reduce interest rate risk while providing a service to our members. At MVCU we have an analysis performed on our servicing asset quarterly. Accounting for the servicing rights at that frequency captures the volatility in the pricing, should there be one, and we believe the risk is minimal.

CUSO – Currently we are not invested in a CUSO. MVCU does recognize a CUSO as an opportunity to provide specialized services to members and continually explore this possibility. The weight of a blanket 250% on an investment of a CUSO regardless of what business that CUSO is in or how it is performing has no warrant and should be revisited as part of this rule.

Liabilities – The liability side of the balance sheet is ignored in the calculation. The mix of deposits or borrowings could mitigate some of the interest rate risk and should be captured in the calculation.

Lastly, the timeline of 12-18 months for implementation is too short. The timeline would need to be much greater to allow for Credit Unions to adjust their balance sheets to the new rule.

Thank you for the opportunity to comment on this proposed rule and we would appreciate consideration to the views expressed.

Sincerely,

Donald J. Croteau

Donald J. Croteau
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Merrimack Valley FCU