Southern Mass
CREDIT UNION

Daniel E. Waltz
President / CEO

May 28, 2014

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

Re: **Proposed Rule: PCA – Risk-Based Capital**

Dear Mr. Poliquin,

I am writing to express a few concerns regarding the above referenced proposed rule. Southern Mass Credit Union is a state-chartered community credit union serving anyone who lives, works or attends school in the Massachusetts counties of Bristol, Barnstable or Plymouth. As of March 31, 2014, our Credit Union had 10,586 members, total assets of $187 million, total loans of $105 million and total share deposits of $166 million. As of March 31, 2014, our Credit Union has a Net Worth ratio of 10.60%; a Risk-Based New Worth Requirement of 6.77% and under the Proposed Rule using the NCUA's Calculator for Proposed Risk-Based Capital has a Risk-Based Capital Ratio of 14.32%.

A few of the comments/concerns I have are as follows:

Investments

The proposed rule appears to categorize NCUA and FDIC insured Certificates of Deposit and Agency-issued Mortgage-Backed Securities or CMOs held within a credit union's investment portfolio the same as and with all other investments assigning them the same risk-weighting as all other investments based upon their maturity. This results in too high of a risk-weighting being applied to these very safe investments. The principal of NCUA and FDIC insured Certificates of Deposit is 100% guaranteed and poses limited risk (if any, other than a slight interest rate risk for longer term CDs) to a credit union's balance sheet; they should be assigned a much lower rating than those of other investments, a rating between 0% and 20% should apply to all NCUA and FDIC insured CDs instead of a range of 20% and greater. As for Agency-issued MBS and CMOs, these investments are recognized by the Federal Reserve Bank (when using these securities for pledging collateral at the Discount Window as so noted in the Federal Reserve Discount Window & Payment System Risk Collateral Margins Table) as low risk and of high quality by the assigning a collateral valuation margin on these securities between the range of 90% to 98% of their market value. Accordingly the NCUA should assign a much lower risk weighting to these securities, the same as other government obligations of between 0% and 20%.

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CUSOs

Although our credit union, at present, has a very limited investment in CUSOs, the risk-based weighting of 250% is in my opinion excessively high. This risk weighting will limit the ability of credit unions to invest in CUSOs which provide value-added services to credit union members. It has the potential to hinder the collaboration, formation and development of new CUSOs.

Implementation Time Frame

The implementation time frame of 18 months is too short. Once a final rule is passed, credit unions need to have adequate time to thoroughly analyze the impact on their risk-based capital ratio in order to develop new strategies and plans which may require the realignment of balance sheets, implementation of new investment strategies, and change in loan portfolio mix through their strategic planning processes and ALCOs. These processes cannot be reasonably completed and strategies implemented within an 18 month time frame.

If you or your staff should have any questions, please feel free to have them contact me at 508-994-9971.

Thank you for the opportunity to comment on this proposed rule.

Sincerely,

Daniel E. Waltz
President/CEO