Corning Credit Union

Gary A. Grinnell, President and Chief Executive Officer

April 23, 2015

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

Re: Revised Risk-Based Capital Proposal

Dear Mr. Poliquin:

On behalf of the Board and Management of Corning Federal Credit Union, I would like to take this opportunity to comment on the National Credit Union Administration's revised risk-based capital rule approved by the NCUA Board in January 2015.

By way of background, Corning Federal Credit Union is a $1.1 billion asset institution, serving over 93,000 members. We are well-capitalized with a net worth ratio of 9.22%, and we would remain well capitalized with a risk-based capital ratio of 14.15% under the proposed model (as of September 30, 2014 call report data). Our delinquency and charge-off ratios have averaged 0.25% and 0.12%, respectively, over the past five years.

We would like to express our appreciation to NCUA for seriously considering the more than 2,100 comment letters submitted regarding the agency's original risk-based capital proposal. As one of the credit unions that submitted a comment letter, we commend NCUA for responding to a number of the serious concerns expressed about the original proposal. The revised proposal is clearly more balanced than the original, and we are appreciative of those changes, specifically:

- Moving the effective date of the rule to January 2019;
- Increasing the threshold for defining a "complex" credit union for which the rule would apply from $50 million to $100 million in assets;
- Removal of the provision authorizing an examiner to subjectively change an individual credit union's capital requirement;
- Reduction in risk weightings for non-owner occupied 1-4 family residences, CUSO investments, and corporate credit union investments;
- Raising the concentration limit risk weight trigger for member business loan portfolios from 25% to 50% of assets;
- Removal of the weighted average life interest rate risk (IRR) component; and
- Allowing goodwill from a merger to be included in the risk-based capital calculation, at least until December 31, 2024.

However, we continue to have concern with several areas of the proposed rule and respectfully request that you consider the following:

Well-capitalized Threshold

Although we recognize that NCUA took the modest step of lowering the risk-based capital trigger for a credit union to be considered well-capitalized from 10.5% to 10.0%, we still have concerns with this artificially high threshold. We still believe that a 10% ratio will have a negative effect on credit union growth. While we estimate that Corning FCU will have a ratio in the range of 14.15% and will therefore meet the RBC requirement, the 10% ratio will essentially eliminate a great deal of the cushion we have today that we utilize to invest in member service. This presents a growth challenge to all credit unions and could have a significant negative long-term effect on the viability of the credit union charter.

Additionally, this 10% ratio enforces a new two-tier risk-based net worth standard for a credit union to be considered well-capitalized, above the existing statutory 7% net worth ratio. It has been debated whether NCUA has the statutory authority to enforce a two-tier risk-based net worth standard. But beyond the question of legal authority, NCUA has not answered the question of how it plans to handle the very likely scenario that an individual credit union maintains a well-capitalized net worth ratio above 7%, yet falls below the arbitrary 10% RBC ratio trigger. From an enforcement standpoint, would a credit union under this scenario be considered well-capitalized, adequately capitalized, or something in between? How would NCUA impose corrective action on a credit union in this situation? Most critically, how would this scenario impact a credit union’s current and future strategic decisions – would it potentially be forced to jeopardize its solid performance and strong net worth position in order to meet the contrary provisions of the RBC ratio?

If it is *fait accompli* that a two-tier system is coming, then we strongly recommend that the NCUA consider lowering the RBC well-capitalized ratio to a level of 9%, which is closer to the statutory net worth ratio of 7% (and which, incidentally is higher than the net worth ratio required of banks under BASEL III).

Concentration Limits on MBLs and Mortgages

Although the concentration limit risk threshold for member business loans (MBLs) was raised from 25% to 50% of credit union assets in the most recent version of the proposal, this, coupled with the similar increase from 25% to 35% for mortgage loans, still presents an onerous burden for credit unions with a historically significant strategic focus on these markets, such as those that have been grandfathered as business lending institutions and thus not subject to the MBL cap.

We recommend that NCUA consider removing these one-size-fits-all concentration risk thresholds for MBL and mortgage lending as it did with interest rate risk, and allow its examiners to evaluate MBL and mortgage lending risk on a credit union-by-credit union basis during the annual review process.

Risk Rates on Consumer Lending

We were disappointed to see that the risk weighting criteria for consumer loans actually increased in the revised RBC proposal. No one in the financial services industry does consumer lending better than credit unions. Considering the historically strong performance by credit unions in managing consumer lending risk, and the importance of consumer lending in ensuring future net worth and capital growth opportunity, we recommend that these weights be reduced to 75% for non-delinquent unsecured loans, and to 50% for non-delinquent secured loans.

Risk Rates on CUSO Investments

Although NCUA's decision to reduce the proposed risk weights for credit union service organization (CUSO) investments from the arbitrary and highly punitive 250% to a more reasonable 150% is a step in the right direction, we urge the agency to consider reducing it further to an even weighting, on par with the 100% weighting for loans to a CUSO. The risk-weighting model as proposed fails to consider the risks of different types of CUSO activities; NCUA has preferred instead to justify its stance based solely on the differences in accounting treatment between loans to and investments in a CUSO.

Historically, despite a few isolated incidents of credit union losses related to poorly-considered CUSO investments, systemic risk in CUSO investments has remained very low. Currently only .22% of total credit union assets are invested in CUSOs. We feel that the 150% risk weighting is excessive as it overstates the actual risk of investing in CUSOs. Rather than penalizing forward-thinking credit unions for pursuing industry collaboration, risk-sharing and economies of scale through the formation of CUSOs, we recommend that NCUA reduce the risk weighting of all CUSO investments to 100%, and manage any aggressively risky CUSO activities through the regular credit union examination process.

Mortgage Servicing Assets

Despite widespread outcry during the first comment period, NCUA decided not to reduce the risk weighting on mortgage servicing assets from the highly punitive 250% that was included in the first proposal. Although we understand that there is some additional risk exposure for credit unions in the area of mortgage servicing rights, it is our belief that the proposed risk weighting of 2.50 is disproportionate to the inherent risk. This level of risk weighting will have the unintended effect of discouraging prudent risk management through sales to the secondary market and via loan participations. It also fails to recognize that there are two accounting methods for mortgage servicing (fair value and amortization). Clearly, these methods should not be treated with the same risk weight because the amortization method is an inherently more conservative approach.

In addition, in 2013 NCUA implemented a rule to help credit unions better manage the risks inherent in loan participations. This rule is working and is effectively reducing the risks in loan participations and secondary market sales. We recommend that NCUA reduce the mortgage servicing risk weighting to 150% and consider reducing it further to 100% for mortgages that are sold without recourse but where servicing is retained.

Conclusion

Thank you again for your consideration of our previous concerns and those of the credit union industry in revising the risk-based capital proposal. We respectfully request that you consider the concerns expressed in this comment letter with the same level of attention. It is our hope that the risk-based capital rule can be an important piece in the foundation of comprehensive capital modernization and reform.

Should you have any questions or require additional information in support of the recommendations made herein, please feel free to contact me at 607-962-3144, ext. 5292.

Sincerely,

Gary Grinnell
President and Chief Executive Officer

cc: The Honorable Deborah Matz, Chairman
The Honorable Richard Metsger, Vice-Chairman
The Honorable Mark McWatters, Board Member
The Honorable Charles Schumer, United States Senate
The Honorable Kirsten Gillibrand, United States Senate
The Honorable Tom Reed, United States House of Representatives