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April 23, 2015

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

RE: Commentary on New Risk Based Capital (2) Computation

Dear Mr. Poliquin:

On behalf of Bay Ridge Federal Credit Union, we would like to express our appreciation to NCUA for seriously considering the over 2100 comment letters submitted regarding the agency's recent risk-based capital proposal. Ours was once of those taken into consideration, and we want to commend NCUA for responding to a number of the serious concerns expressed about the original proposal. The revised proposal is certainly more balanced than the original, and we are appreciative for those changes. However, we believe that there are still several areas of continuing concern that we feel should be addressed.

The management team of Bay Ridge Federal Credit Union sincerely appreciates the opportunity to again provide commentary in regards to the revised proposal of NCUA Regulation 702.104 referred to as RBC2. The Bay Ridge Federal Credit Union management possesses over fifty years of experience in granting commercial real estate and taxi medallion loans. We grant conservative loans which are collateralized by strong equity positions to cover the risk of potential loss. We have consistently built up net worth through sustained earnings. Under the current regulation, we are well capitalized. We have used the current regulation as our benchmark for gaging our future growth. The new regulation is imbalanced as it does not differentiate between well underwritten member business loans with strong equity cushions versus unsecured poorly underwritten member business loans. The new regulation utilizes blanket concentration risk as the underlying parameter for risk weighting instead of viable credit risk within the portfolio. Concentration risk by itself does not necessary indicate higher risk within a balance sheet if properly managed and monitored.

In the late 1990's, Bay Ridge Federal Credit Union was granted a waiver for the aggregate limit on a credit union's net member business loan balances which is presently the lesser of 1.75 times the credit union's net worth or 12.25%. Based on our sound member business loan underwriting practices, we were afforded a waiver from this part of the member business loan regulation. We have been in the business of granting member business loans for almost 50 years. Credit union management has a keen understanding of member business lending which allows for prudent and sound underwriting practices. Please see the following table for our MBL portfolio compared to assets.

	Dec-2010	Dec-2011	Dec-2012	Dec-2013	Dec-2014	Mar-2015
MBLs	59,399,990	67,356,671	75,980,945	96,542,607	109,564,160	116,368,482
Total Assets	127,672,827	151,757,996	166,258,581	180,050,820	201,633,717	202,091,865
MBL % of Assets	47%	44%	46%	54%	54%	58%

NCUA RR 723.17 was the guidance to allow us to receive the exception to the aggregate rule. NCUA RR 723.17 states credit unions that have a history of primarily making member business loans, meaning that either member business loans comprise at least 25% of the credit union's outstanding loans (as evidenced in any call report filed between January 1995 and September 1998 or any equivalent documentation including financial statements) or member business loans comprise the largest portion of the credit union's loan portfolio.

Bay Ridge Federal Credit underwrites member business loans in a prudent and safe manner. The management team at BRFCU has years of experience and only entertains loans with conservative loan to values, reasonable credit scores and reasonable capacity to repay the debt. Bay Ridge FCU has done well in that it has sustained profitability, growth and strong net worth without endangering the underlying membership in any manner.

Under the current NCUA Regulation 702. Bay Ridge FCU has a well-capitalized net worth position of 9.28%. In light of the credit union's share growth, Bay Ridge FCU has sustained its current net worth ratio through consistent profitability and limited share growth. Management is mindful of the impact share growth has on net worth levels and limits growth in a prudent and conservative manner. Under the current NCUA RR 702.103 and 702.104 our risk based net worth requirement based on our current allocation of assets is 7.99%. Therefore, our minimal net worth level to be deemed adequately capitalized is 7.99% versus 6% under Prompt Corrective Action. We have attained a current net worth ratio of 9.28% which exceeds the minimum standard by 129 basis points. Management's goal is to build up net worth to at least 10% while maintaining a well-diversified portfolio of commercial, real estate and consumer loans.

The new proposed NCUA Regulation 702.102(a) would replace current Regulation 702.102(a) and would set forth new minimal capital measures for complex credit unions. Although sections 216(c)(1)(A)(ii), (B)(ii), C(ii) and 216(d) of the NCUA use the term "risk based net worth" with the functionally equivalent term "risk based capital" in the proposed rule would better describe the equity and assets the requirement would measure.

As mentioned before, under the new regulation, Bay Ridge Federal Credit Union would have to obtain a 10% "risk based capital ratio" to be well capitalized and an 8% "risk based capital ratio" to be adequately capitalized.

CONCERNS

We have a major concern with this new regulation in regards to the allocations and computation of the new risk based capital ratio. Bay Ridge FCU presently possesses an MBL portfolio comprised of taxi medallion loans and commercial real estate loans. Our commercial portfolio amounts to $116,368,482 or 57.58% of our assets ($202,091,0865) as-of March 31st, 2015. The new "risk based capital ratio" would risk weight the MBL's greater than 50% of assets at 150%.

Since $15,322,550 of our MBL's are greater than 50% of assets, they are afforded a 1.50 risk factor in the new "risk based capital" computation. Further, the new risk based capital" calculation inflates total assets by the associated risk factors and thus dilutes the denominator in the computation. In the prior computation, assets were afforded risk factor allocations in the numerator to determine the necessary capital requirements based on the portfolio risk allocations. However, the denominator of total assets did not change. Therefore, there was no dilutive effect in respect to the present computation of risk based net worth.

Our commercial loans are much safer than other types of loans with lower levels of equity. Since we were already granted a waiver from the aggregate limit under Reg. 723 and concurrently have sustained consistent profitability and net worth growth, we feel affronted by this new regulation that places a potential damper on our strategic business plan to grow the credit union assets with additional commercial and real estate loans fueling the growth.

In our view, the new regulation should be modified to allow for varied levels of risk weight percentages based on risk factors of the underlying member business loans. It is unfair for an unsecured business loan to be afforded the same risk factor as a fully collateralized member business loans with a minimal history of default and delinquency. Therefore, to summarize, the historical impairment factors coupled with conservative equity positions supported by loan to value ratios should be utilized in determining an appropriate risk rating for member business loans. We strongly oppose the presumption that all member business loans should be weighted equally as is the present case. We support a calculation that provides for varied risk weighting based on underlying documentation, historical impairment factors and loan to value ratios. That, in our view, would be a much better gage for determining net worth requirements.

IN SUMMARY:

1. Trigger to be well capitalized could be lowered further, either to 7% for consistency with current statutory PCA net worth requirement, or to 9% requiring an additional 200 bps cushion above the statutory PCA net worth requirement, or to 7% or 9% with a phase in period to get to 10% over a five to ten year period instead of just the 3 years proposed.

2. Coordination of any corrective action under RBC should also incorporate statutory PCA 7% net worth figure and mitigate any corrective action if a CU falls below one

capitalization standard but remains above the other – thus recognizing the importance of seventeen-year existing law along with value of RBC system.

3. The current one size fits all 7% PCA net worth standard still is required by law. There is no relief. There is only an additional regulatory standard on top of statutory PCA standard.

4. If a credit union is well capitalized on one of the calculations but not the other, what PCA actions take place?

5. Most credit unions have higher risk based capital ratio under BASEL for community banks than NCUA's risk based capital formula for credit unions.

6. Without the ability to grow, the ability of a credit union long term to stay above the required PCA 7% net worth, RBC 10% risk-based capital and a sufficient cushion to invest in products, services, technology, branching and strategic initiatives will be challenging – if not impossible.

7. Concentration risk on business loans and mortgages could be removed completely, leaving the issue of concentration risk (as has been done with interest rate risk) to be evaluated by the supervisory examination process on a credit union-by-credit union basis.

8. Risk weight for consumer loans went from .75 on all non-delinquent consumer loans to .75 on non-delinquent secured consumer loans and 1.0 for consumer loans that are non-secured by still non-delinquent – a better trigger many believe would be staying a .75 for non-secured and .50 for secured consumer loans (since these loans are required to be non-delinquent and are what credit unions have historically managed most effectively.)

9. As mentioned in the prior paragraphs, risk weighting for mortgage loans and MBL's totally concentration based- no mitigating factor for LTV< credit rating or performance.

10. As mentioned before, credit unions historically chartered for purposes of making business loans are penalized for concentration risk when, in actuality, their non-MBL portfolio is historically proven to be more at risk.

11. There is no credit to mortgage or MBL's and even consumer loans provided for performance in these asset categories. There is no credit if the portfolio is performing through strong underwriting of credit risk.

12. CUSO risk weights is still potentially punitive at 1.50 for any type of CUSO, down from 2.50 but still high with so little systemic risk (22 bps of total CU assets in CUSO investments) – better rate would be 1.0 or 1.50 for lending CUSOs and 1.0 for operational CUSOs.

13. Mortgage servicing rights risk weight was held at 2.5, thus penalizing credit unions retaining servicing rights – a better risk weight is felt by many to be 2.0 or 1.5.

14. Supplemental capital was not addressed, thus creating the opportunity to use RBC2 comment period to support the need for a supplemental capital regulation to be finalized before the risk-based capital rule becomes effective in 2019.

15. Field of membership modernization could be referenced as crucial to ability of federal credit unions to grow capital by growing business by growing members by growing prospective members by growing FOM.

16. To remove potential capital cushion from which credit unions invest in member service and require it to be reserved creates a growth challenge that can only be overcome with more members and earnings from them.

The Bay Ridge Federal Credit Union management team would like to stress that we appreciate the opportunity to provide commentary in regards to RBC2 with this letter. However, the proposed regulation would place a major roadblock to our book of business and impede our operations dramatically. In our strategic business plan, we emphasize on commercial loan growth coupled with real estate and personal loan growth. We have the experience to make sound business loans in a prudent and safe manner. Although we understand the need for regulatory reform in this area, we believe that the risk weightings should reflect matrices for varied levels of credit risk within member business loan portfolio. A well collateralized member business loan with significant equity has minimal default risk and therefore should be afforded a much lower risk factor than an unsecured member business loan. Concentration risk by itself does not necessary indicate higher risk within a balance sheet if properly managed and monitored.

Again, we thank you for your consideration of our previous concerns as well as those of others about the risk-based capital proposal and respectfully request that the same level of attention be provided to the concerns addressed in this comment letter. It is our hope that this risk-based capital rule can be the first step in a comprehensive approach to capital modernization and empowerment of credit union growth that makes the credit union charter safer, sounder and more competitive for generations to come.

Sincerely,

Anthony Grigos
Executive Vice President