Connex
CREDIT UNION

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April 24, 2015

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

Re: Nation Credit Union Administration; Prompt Corrective Action – Risk Based Capital; 12 CFR Parts 700, 701, 702, 703, 713, 723, and 747

Dear Mr. Poliquin:

I am following up on my comment letter written last year regarding the then proposed Risk Based Capital (RBC) regulation. By way of background information, I am the President and CEO of Connex Credit Union headquartered in North Haven CT, with over 50,000 members across a 3-county area. We are already a well-capitalized credit union with over $437M in assets and 11.9% in net worth.

While the new proposed RBC regulation introduced earlier this year has many improvements over the previous legislation, I still believe that the NCUA has failed to demonstrate a compelling need for the proposal at all. Aside from the statutory authority of the NCUA to establish a standard, the practical evidence from the financial crisis that started in 2007 suggests that the cooperative strength of the credit union industry is already sufficient. One could certainly see the reasons behind the FDIC's need to develop more stringent constraints as their insurance fund absorbed huge losses through the crisis; those changes are entirely appropriate given the shortcomings exposed in that crisis. Because no similar shortcomings were revealed for the credit union industry, there is no substantive case to adopt any of the recent initiatives launched by the FDIC.

It is important to recognize some fundamental differences between banks and credit unions. Because of their unique cooperative structure, strong member focus, <u>and the absence of stock options for executives or pressure from stockholders</u>, these not-for-profit institutions with democratic governance eschew excessive risk-taking. And because they take less risk, they tend to be less affected by the business cycle, and can serve to soften the blow of economic downturns in local economies. If credit unions are regulated and supervised more and more like banks, they may be forced to act more and more like banks.

That being said, the new proposal has some welcome changes in the weights associated with loans and loan loss allowances, especially within the area of real estate secured loans. Our particular organization provides multiple real estate lending options to our members, and we have managed our interest rate risk associated with these longer assets by selling some of the loans to FNMA. However, we have retained the mortgage servicing assets as a benefit to our members, who have initiated their loan with our institution and would prefer to continue to deal with Connex. The selling of these assets has certainly limited our earnings capabilities as a credit union, and has also limited our exposure to interest rate risk. Institutions that have sold these assets have reduced their exposure to the insurance fund by not taking on excessive interest rate risk, and may now be penalized for that activity. The proposed risk weighting of 250% on mortgage servicing rights is too high, and should be reduced before any rule is finalized, as it penalizes our institution for maintaining our relationship with our members and is not consistent with our mission of member advocacy.

If Connex were to keep the loans on the balance sheet, not only would the credit union be subject to a higher risk weighting for loans exceeding thresholds outlined in the proposal, it has the potential to be subjected to addition interest rate risk regulation grafted onto RBC or PCA in the future. I applaud the NCUA for promoting active interest rate risk management of the industry, however a broad blunt instrument such as PCA is not the tool to manage this detail of risk oversight. I strongly encourage the NCUA to think carefully about further inclusion of IRR into RBC or PCA. Our State Department of Banking has long adopted and incorporated interest rate risk into their examination process by use of the "S" in the CAMELS rating system, and we believe that to be sufficient to address these concerns, rather than another level of increasing regulatory burden.

I also appreciate some of the changes in the treatment of CUSOs in the new legislation. We currently have a wholly-owned CUSO which we report in a consolidated manner, and value of providing quality services to our members through that investment has been immeasurable. However, the ability to strategically work with other like-minded credit unions through CUSO investments in the future also has value to our membership, and the current proposal has an excessive weighting on that type of participation. I believe by not allowing credit unions to continue to work in a cost-effective, collaborative and creative manner to meet the needs of their membership is a disservice to the mission and an unnecessary impact to the membership.

In response to growing healthcare costs and other employee benefits, along with shrinking net interest margins and net earnings, our credit union is currently considering alternatives allowable by the NCUA for prefunding of employee benefits. I am concerned about the 300% risk weighting for publicly traded equity investments, which should be much lower so that credit unions will not be unduly limited in their investments for employee benefit funding.

Finally, I have a concern with how the NCUA is addressing goodwill and the potential for supplemental capital into the numerator of the RBC calculation. Currently, mergers represent an opportunity for growth for our credit union and for stability to the insurance fund. In the proposal, unless they are deemed "supervisory mergers", goodwill will not be allowable for inclusion in RBC. The exclusion of non-supervisory goodwill from the numerator will discourage some well-managed and well capitalized institutions like Connex Credit Union from participating in mergers. GAAP adequately addresses goodwill and other intangible assets, and as long as annual impairment testing is done, there should be no exclusion for these assets. While supplemental capital cannot be included in net worth for most states without a change to federal law, there is nothing that prevents the NCUA from including supplemental capital in the numerator of the RBC, which already includes items that are not part of net worth. To not include goodwill and supplemental capital in Risk Based Capital calculations discourages both strategic mergers and capital raising that would further hinder credit unions from being able to serve their members in the most innovative and progressive manner. Penalizing credit unions for thinking strategically is the type of regulatory handcuffing that is not helpful to furthering the credit union mission.

I fully appreciate the incorporation of much of the feedback you received in my prior correspondence, and from the entire credit union industry, and the new proposal is certainly a better, more thoughtful approach than the one presented last year. I would ask that the NCUA further investigates measures that provide oversight without hindering credit unions from providing the services that are so necessary in our respective communities. I appreciate your time and attention to my comments.

Sincerely,

Frank Mancini

Frank Mancini
President and CEO
Connex Credit Union