April 27, 2015

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428
April 21, 2015

Re: Comments on Proposed Rule: PCA - Risk Based Capital

Dear Mr. Poliquin:

First Heritage Federal Credit Union (FHFCU) appreciates the opportunity to comment on the National Credit Union Administration (NCUA) Board's proposal to revise Prompt Corrective Action related to Risk-Based Capital (Proposed Rule) issued on January 15, 2015.

FHFCU has a community charter and serves approximately 32,000 members in Steuben and Chemung Counties in New York and Tioga County in Pennsylvania. The Credit Union currently has $412 million in assets.

We do recognize that the NCUA has revised its initial proposal and substantially improved it. However, we still believe the Proposed Rule as it is now drafted is still unnecessary given the regulatory rules currently in place, which safeguards both our members and industry.

There is no evidence that risk based capital requirements, utilized by the banking regulators, work any better than the net worth requirements currently imposed by the NCUA. The CUNA analysis of NCUSIF losses vs. FDIC losses from 2007 to 2013 shows the banking loss rate, with risk-based capital standards in place, was 8.8 times higher than the credit union experience. During this period the FDIC loss rate per $1,000 of deposits was $2.30 vs. the credit union loss rate of $0.26 per $1,000 of deposits. Banks have had risk-based capital requirements for nearly 25 years and these requirements neither prevented the latest crisis in 2007 nor stopped significant failures in the banking system.

Natural person credit unions came through the worst recession in history with few problems, so it appears that this proposal could end up harming an industry that is not currently in need of strong corrective actions. Most credit union failures, including the Corporates, were due to high concentration levels of assets with poor credit quality, which this proposal seems to treat as a secondary characteristic rather than as a primary focal point.

That said, we would like to cover the major areas of concern in the Proposed Rule and provide our recommendations for improvement.

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Positive Points of the Proposed Rule

We would like to highlight the following positive aspects of the Proposed Rule which were changed from 2014:

1. Removing interest rate risk from the proposal;
2. Dropping the 1.25% Allowance for Loan Losses cap from the risk-based capital numerator;
3. Extending the implementation period; and
4. Lowering the well-capitalized threshold from 10.5% to 10%.

Opportunities for Continued Improvement of the Proposed Rule

The following areas are concerning and we would like to see removed or modified:

1. The NCUSIF deposit should not be deducted from the risk-based capital numerator or the risk based asset denominator. The deposit is under the NCUA's control and it is supplementary to the capital available on a credit union's books in case of failure. Therefore, it should remain part of the risk-based capital numerator.

2. The concentration risk penalty for first mortgage loans and junior liens should be eliminated. The Proposed Rule assigns higher risk-weights for larger concentrations of these loans than banks currently recognize under FDIC rules. The NCUA should bring these risk-weights in line with similar industry standards.

   First Mortgage Real-Estate Loans (Excluding Commercial Real Estate):

   The Proposed Rule would increase the burden and costs by requiring higher levels of capital for those credit unions that hold first mortgage assets in excess of 35% of total assets. This could increase the overall cost of providing mortgages to our members, which is an important service.

   The NCUA should eliminate the higher risk-weights for concentrations of residential first mortgage loans. Credit unions and their members will both benefit by not increasing their costs to fund these loans and credit unions will not be at a competitive disadvantage to other financial institutions.

   Junior Liens:

   As the housing market continues to recover, junior liens are becoming an important financial tool for homeowners.

   The NCUA should eliminate the higher risk-weights for concentrations of junior liens. This will ensure that credit unions will not be at a competitive disadvantage to other financial institutions.

3. Investments in Credit Union Service Organizations (CUSOs) should have similar risk weights as Loans to CUSOs. Under the Proposed Rule, CUSO investments are proposed to have a risk-weight of 150% irrespective of the type of business that is conducted by a

particular CUSO. At the same time, loans to CUSOs are carried at a risk-weight of 100%. This is inconsistent, and should be the same 100% risk-weight regardless of the financing structure.

4. The Proposed Rule is a complete overhaul of current credit union capital standards, thus it would be appropriate to incorporate a supplemental capital provision into the regulation and put it out again for further public comment.

5. The costs associated with the proposal outweigh the benefits. Based on your estimates, this proposal will raise the capital standards for just 27 credit unions, and only 19 will be downgraded. At the same time, the overall cost of revising the Call Report and training examiners is estimated at approximately $5 million. This is far too large of an expense for such little benefit to the industry.

6. The NCUA definition of "complex" credit union needs to be modified to reflect actual balance sheet composition rather than an arbitrary cutoff of $100 million in assets. Additionally, if the NCUA continues to focus on an arbitrary asset level, $100 million is too low and the threshold should be raised from $100 million to $500 million.

Conclusion

As previously stated, the NCUA's revised proposal to create a risk-based capital standard is a step in the right direction. However, the Proposed Rule as written would still have significant negative capital consequences to credit unions and could place them at a competitive disadvantage relative to banks. Our recommendations would respectively improve the Proposed Rule and allow credit unions to confidently operate under this new standard.

Sincerely,

Frank D. Vassallo, CFA
Chief Financial Officer