From: Sandy Piscitelli
To: _Regulatory Comments
Cc: Joseph Barbato - MILLBURY; Robert Hobson - MILLBURY
Subject: Joseph F. Barbato and Robert W Hobson-Comments on Proposed Rule Risk Based Capital
Date: Monday, April 27, 2015 9:48:41 AM

MCU
Your Community Credit Union!

April 27, 2015

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

Dear Mr. Poliquin:

The Millbury Federal Credit Union would have been majorly impacted by the original 2014 initial Risk Based Capital Rule. We are pleased that the revisions now out for comment have significantly improved the situation. We appreciate the opportunity to make further observations and recommendations to this regulation as it will affect the course of credit unions for years to come. As the rule is finalized the overall tenant should be a consistency of message in the interpretation and application by both credit unions and examiners.

MCU supports the proposal that a credit union which holds both the first mortgage and a junior lien on a home equity line on the same property, with no intervening lien can treat the two loans as a single loan, secured by a first lien for risk weight calculation purposes.

The risk weightings however, are still punitive with respect to first lien residential real estate mortgages. First liens on the balance sheet above 35 percent receive a 75 percent weight versus 50 percent under 35 percent of assets. To reiterate our comments in our previous letter last year, examiners have pressured credit unions to retain adjustable rate mortgages and sell fixed. While this practice my result in future reduced interest rate risk, it certainly reduces margins in the present, particularly in extended low interest rate environments such as we are now experiencing. Credit unions who have followed examiner advice should be granted some relief by excluding adjustable rate mortgages with resets at five years and under from the over 35 percent premium risk weight category.

Net interest income today only covers about 70 percent of industry operating expenses. Fee income has become an integral component of achieving positive net income. In fact, some examiners have been critical of not having enough sources of fee income. Credit unions now seeking to improve fee income by selling and servicing mortgages now face the added challenge of applying risk weights to the return equation.

Mortgage Servicing Assets (MSA's) risk weights at 250 percent are equivalent to the FDIC treatment. This is an area where just matching the FDIC is not enough. There is a consistency of guidance issue at play. Credit unions are expected to manage interest rate risk and a premium risk weight is charged if a higher percentage of mortgages are held on the balance sheet. Yet, if fixed mortgages are sold and servicing rights retained a significant risk premium is again applied.

Concern for prepayment risk is understandable but can be mitigated in part by being in the market all the time, which requires brand recognition. Selling your member to a competitor with servicing rights released further reduces your ability to market your member because constant contact is lost. Why should members apply for mortgages at their credit union if they only wind up being sold and serviced elsewhere? The only achievement is a further commoditization of the mortgage product based on price. Rate will be the only thing that matters. We urge the NCUA to take a stand and utilize a lower risk weight to provide credit unions with some competitive advantage in this important revenue source.

With respect to Commercial Loans MCU supports 1 to 4 family non-owner occupied real estate backed loans as receiving a risk weighting of 35 percent, but it should be a separate category and not count towards the premium of 75 percent risk weight when real estate loans comprise over 35 percent of assets. From a concentration risk standpoint commercial loans are already capped at 12.25 for the majority of credit unions.

Finally we ask the NCUA to not implement a final risk based capital ruling until a path to secondary capital has been established. Failure to provide for secondary capital as part of this process would be the equivalent of creating a maze with no way out.

Sincerely,

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