April 27, 2014

Mr. Gerard Poliquin
Secretary to the NCUA Board
1775 Duke Street
Alexandria, VA 22314

Dear Mr. Poliquin:

Re: NCUA's New Risk Based Capital Proposal

On behalf of First New England Federal Credit Union (FNEFCU), I am commenting on the NCUA's revised Risk Based Capital proposal. FNEFCU is an $80 million multi SEG-based credit union in East Hartford CT specializing in real estate lending for over a decade via a successful mortgage CUSO that has quadrupled its initial capital while serving 22 other credit unions. We value direct member relationships based on helping members with their homes, autos, and personal checking / loan needs. **NCUA's revised risk based capital proposal continues to directly threaten our member focused business model** which survived the financial crises, rebuilt capital to pre-crisis levels, and maintains a real estate focus as before. As in our first comment letter we strongly urge that this proposal be withdrawn.

The proposal does not effectively address risk. Instead it will provide a false sense of security establishing a new two tiered capital system that masks risk using an arbitrary model. The model will require more capital and drastically restrict innovation on our member's behalf. Had this proposal been in effect 10 years ago it would have required us to raise substantially more capital, labeled mortgage lending and mortgage servicing as risky ventures via high risk weights, and squashed any potential that our Board would have approved the formation of a mortgage CUSO.

The anticipated impacts of the revised proposal to FNEFCU today would be as follows;

- Our current real estate oriented loan portfolio with associated mortgage servicing rights would trigger the need for us to raise more capital to cover the "new theoretical risks". The new capital plan would stifle our future innovation in the real estate area and specifically with regard to our mortgage CUSO operations.
- FNEFCU would sell existing and new mortgage servicing rights thereby exposing our members to the same servicing abuses suffered by banking customers over the past decade. This would increase net profits up front funding the new capital plan on the backs of our members. Effectively we will be forced to throw them back into the general servicing market they do not trust and that did not perform effectively as we did during the financial crisis.
- Capital in our mortgage CUSO would also be deemed more risky. Thus the CUSO would need to research options to limit and or sell new capital contributions that are comprised of mortgage servicing rights.
- The trusted mortgage lending reputation that we have built over a decade that helped us survive the financial crises would be tarnished by our regulators incorrect branding of our real estate

operations as “risky”. If our regulator model deems us risky, our members are more likely to lose confidence in us.
- Though technically our credit union might be exempted from the proposal because we are 80 million which is less the revised 100 million threshold, the net impact would be that our credit union would be forced to limit growth to stay under 100 million. Even under the threshold the reality is that examiners would attempt to use the new RBC standard as a benchmark to assess risk.
- FNEFCU would put severe limits on any second mortgage lending to members given our existing heavy concentration and the new risk weightings. Member home improvements and debt restructures would be reduced or eliminated as we phased back second mortgage lending.

The perverse impacts of the risk based capital proposal would be imposed under the guise of making our credit union more safe and sound. The irony is that these same theoretically “risky” assets were essential to our survival during the crises. Our financial stability improved through financial crises as we helped hundreds of members refinance their mortgages to lower payments, and increased capital back to pre-crises levels. Today our credit union continues to reduce risk by our focus on real estate. We have a balanced mix of variable and fixed rate mortgages in multiple maturity buckets that provide steady income streams and reduce credit risk. That is why we survived the worst real estate crisis in 70 years never falling below a well-capitalized rating with the same risk profile we have today. NCUA field level exams have validated this model over the past decade via on site exams.

A risk based proposal needs to identify and target the real losses which NCUA experienced; exponential hyper growth in member business loans/participations, purchasing outside businesses without proper vetting and oversight, real estate hyper growth in “hot” real estate markets using poor underwriting, inadequate oversight of the corporate network, and real estate lending in geographic areas not connected to the credit unions core market. **The proposal does not target these risks. Instead it uses a one size fits all model that did not work during the last crises. We believe that an essential function of the agency in the field is assessing such risks. The proposal replaces professional judgment in the field with a misguided simplistic formula.**

The new Risk based capital regulation proposed has accurately been described as a solution in search of a problem. There was no urgency to act based on the financial performance of credit unions. If the agency insists on imposing a new capital plan (instead of pursuing the matter via the legislative route which we favor), then we would ask that the current RBNW system be modified as NAFCU has suggested to provide simplicity and safety without a new regulatory scheme that will significantly add to the regulatory burden our credit union faces.

FNEFCU was at the forefront during the crises lending to our members safely, modifying mortgages, and allowing our members to take advantage of the government endorsed low interest rate environment to reduce their payments. In order for our credit union to continue to build on our success in these areas, FNEFCU again respectfully requests that this proposal be withdrawn.

Sincerely,

Michael Palladino
President & CEO