New England Federal Credit Union

April 16, 2015

Mr. Gerard Poliquin
Secretary of the Board
NCUA
1775 Duke Street
Alexandria, VA 22314-3428

Dear Mr. Poliquin:

Thank you for the opportunity to comment on the proposed rule for Risk-based Capital. We are largely supportive of an effort to measure risk on a credit union's balance sheet in an effort to ensure that sufficient capital exists to mitigate the risk. As a federally insured credit union, we expect that the NCUA will adopt a Risk-based capital rule that appropriately measures the risk to the fund and ensures that all credit unions are protected from avoidable systemic risk.

We believe that this revised proposed rule is an improvement in many ways over the original proposal. We applaud the removal of risk weights related to the average lives of investments. As we indicated in our previous comment letter, we do not believe it is appropriate to measure interest rate risk (IRR) based solely on one component of the balance sheet. We are aware that the NCUA is contemplating rule-making in the future for IRR. As a large credit union with a fairly complex balance sheet, we are concerned about this possibility. Already, we are subject to a plethora of guidance and requirements from the NCUA regarding the management of IRR. Capital Asset Specialists conduct yearly exams at our credit union and appear to understand how different assumptions affect and drive the results. The exam involves a discussion and comparison of different assumptions. The management of IRR is subjective and we are concerned about any intentions to reduce it to a formulaic approach. We believe the NCUA's current approach in the examination of IRR is working and any rule-making is likely to increase costs unnecessarily.

A rule component that did not change is the risk weighting of Mortgage Servicing Assets (MSA). The 250% risk-weighting for mortgage servicing assets appears to be excessive. The value of mortgage servicing assets does rise and fall depending on the current rate environment. However, current accounting rules dictate that periodic valuations must be done and impairment must be measured and recorded. This impairment is most often temporary in nature and will eventually be reversed. The practice of originating and servicing mortgages is an important source of non-interest income for credit unions. In addition, this practice is of significant importance to members who want to obtain mortgages from their local credit unions because of the local servicing. Regulations should be more supportive of credit unions' ability to be in this business rather than setting a prohibitive capital requirement.

Sincerely,

Susan E. Leonard

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