Bethpage™
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Wayne Grossé
President and
Chief Executive Officer

April 15, 2015

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

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

Dear Mr. Poliquin:

On behalf of the Board of Directors of Bethpage Federal Credit Union and our 250,000 members, I would like to take this opportunity to provide comments on the National Credit Union Administration's revised Risk Based Capital rule.

I would first commend NCUA for its revisions to the original Risk Based Capital rule, first proposed in January 2014. The new proposal, issued in January 2015, represents an improvement in several key respects. Specifically, the lowered risk weights for most asset classes, including mortgage loans, commercial loans, and long term investments are assigned more appropriate values. Also, the simplified concentration categories for first liens, junior liens and commercial loans, and the treatment of credit union service organization (CUSO) loans and investments are more reasonable and represent a more workable rule than the previous version.

Another significant change was the removal of an interest rate risk from the RBC rule; Bethpage FCU views this decision as a very positive step. Our further recommendation would be that NCUA contemplate an interest rate risk regime that would be supervisory in nature (meaning it would be accomplished through the examination process using guidelines and prudential standards), based on each credit union's balance sheet and examination findings, rather than the basis for an entire new set of regulations that may not only be unworkable for the credit union but also inadequate in preventing future problems.

Regarding the new proposed rule, Bethpage FCU makes several recommendations:

- There is no statutory legal basis for a two-tier capital threshold, and Bethpage FCU strongly encourages NCUA to reconsider that approach. The Federal Credit Union Act does not provide for anything more than a single capital standard. While the new proposal appropriately lowered the requirement from 10.5% to 10%, we find no compelling reason why the "well capitalized" value should exceed that for "adequately capitalized" (proposed at 8%). Bethpage believes a single 8% number for both "well" and "adequately" capitalized credit unions would be sufficient to ensure that a strong and durable capital base be maintained, and would also be legal under the parameters of the statute.

- Regarding CUSO investment risk-weighting, although the new proposed 150% risk weight for CUSO investment is preferable to the 250% standard in the first proposed rule, Bethpage FCU believes that it inaccurately attempts to reflect the variety of CUSO service offerings. CUSO loan underwriting, a higher-risk activity, is assigned the same risk-weight as low-risk, non-financial activities. For example, a 150% risk weight for all CUSOs does not recognize the obvious and historical risk differential in operational CUSOs versus lending CUSOs. It makes no sense whatsoever to allocate the same risk weighting for a business lending CUSO as a land title CUSO that does the research as a part of a loan's underwriting. Operational CUSOs and lending CUSOs should not carry the same risk weighting. We recommend all operational CUSOs to be weighted at 50% as they are replacing at a savings operational costs that the credit union would otherwise carry. Lending CUSOs should be weighted at 100% and poor performance of CUSO investments in a lending CUSO supervised through the examination process. The proposal also fails to account for the prudential underwriting done by a credit union as it evaluates a specific CUSO. This should be corrected in the final rule to take into account actual balance sheet risk.

- Bethpage FCU also urges NCUA to reconsider the risk weight assigned to mortgage servicing assets (MSAs). Unlike many other risk weightings, NCUA did not modify the 250% risk weight given to MSAs in the first proposal. We believe the 250% value to be unnecessarily high, particularly given the new regulatory safeguards built in to mortgage lending under terms of the Qualified Mortgage rule. Bethpage FCU is particularly competent at mortgage lending; we have always taken great care to evaluate the creditworthiness of borrowers and have made prudent, well-underwritten loans. Regardless of any new regulations put in place by NCUA, we intend to continue these successful, member-centric practices. Bethpage FCU urges NCUA to consider a more reasonable risk weight of 150% as a practical and more accurate reflection of the realities of mortgage lending safeguards already in place.

- Supplemental capital should be an integral part of any new capital regime for credit unions. The current system is already restrictive for credit unions; net worth is calculated exclusively through a ratio of retained earnings related to total assets. This results in an often arbitrary, Prompt Corrective Action-derived constraint on member service, as assets grow more quickly than retained earnings. Bethpage FCU believes that NCUA should develop a broad and comprehensive set of rules for use of supplemental capital that fosters prudent growth and member service. While the statutory leverage ratio would not be affected by this regulatory action, and while Bethpage FCU continues to strongly advocate Congressional action to allow supplemental capital to be used in the RBC ratio numerator, we are convinced that NCUA can use existing regulatory authority to grant additional flexibility in this important area.

In closing, we would respectfully disagree with the premise underpinning this new RBC regulation. Given the very small number of credit unions that would actually be affected by the rule, the already robust industry-wide aggregate capital position (which stood at 11.4% at the end of 2014), the amount of pre-emptive costs associated with implementation (specifically NCUA staff training, redesign of the Call Report to name two), and the disproportionate capital reserving requirements that are likely to be undertaken even by the least risky credit unions, Bethpage FCU believes the proposed rule to be misdirected and unnecessary.

While we share NCUA's stated interest in an enhanced, more durable capital regime that enables both the credit union industry and the regulator to mitigate and manage financial risk, we would point to better applied supervisory tools as a readily-available recourse. Strong regulatory oversight at the examiner level and more diligent evaluation of balance sheets that can identify and avoid overconcentration of risk would be mutually beneficial to both credit unions and NCUA, and achieve the goal of fewer failures, fewer problem credit unions, and less loss to the NCUSIF.

We stand ready to assist you if you pursue this course of action, and appreciate the opportunity to comment in a constructive and forward-looking manner.

Sincerely,

Wayne N. Grossé

Wayne N. Grossé
President & CEO
Bethpage Federal Credit Union