

May 28, 2014

Gerald Poliquin  
Secretary of the Board  
National Credit Union Administration  
1774 Duke Street  
Alexandria, Virginia 22314-3428

**Re: Comments on Proposed Prompt Corrective Action – Risk-Based Capital Regulation**

Mr. Poliquin:

Dort Federal Credit Union (DFCU) would like to thank you for the opportunity to respond to the proposed risk-based capital rule. While we agree it is essential credit unions maintain adequate net worth to support their strategies and risks to not pose a threat to the National Credit Union Share Insurance Fund (NCUSIF), it is our opinion the proposed regulation goes too far with a “one size fits all approach” which in the end will result in more credit unions reducing the availability of loans to its membership to comply with this regulation.

Overall, the NCUA appears to have overstepped its authority as Congress has set credit unions capital levels in statute. DFCU is supportive of a capital structure where low risk activities require less capital than high risk ones, but Congress should address this to achieve a fair and balanced system. If the NCUA wants a different capital structure for credit unions, they should present their proposed changes to the Federal Credit Union Act to Congress and justify the need for the changes. It is not the role of the NCUA to make laws, but to enforce the laws as written by Congress.

With regards to this proposal being “BASAL-lite” as stated by Chairman Matz several times, it is not. The risk weights assigned by the NCUA in many cases are greater than those imposed on financial institutions under the new Basal III framework. Additionally, the implementation time to comply with the Basal III requirements is significantly longer than the timeline under the NCUA’s proposal. At a minimum, there should be consistency in the risk weights and implementation time frames.

Below are some of the specific concerns DFCU has with the proposal:

**Risk weighting of investments**

As proposed the NCUA’s risk weights are punitive and inconsistent. Specifically:

- All Treasury securities and those guaranteed by the NCUA or FDIC carry a 0% risk weight regardless of the maturity. This implies there is no interest rate risk associated with these securities which is false.
- Securities with no credit risk such as securities guaranteed by Fannie Mae or Freddie Mac and time deposits in other financial institutions are risk weighted based on weighted average life (WAL) with punitive increasing weights.
- Compared with the risk weighting of a 30-year mortgage loan on the books of the credit union (50% risk weight), the same mortgage in a Fannie Mae pool with a 5-10 year WAL has a 150% risk weight. This makes no sense as the loan in the credit unions loan portfolio is has credit and interest rate risk while the investment has only interest rate risk and benefits from the fact the pool contains hundreds of mortgage loans of similar characteristics reducing the exposure to any one loan in the pool.
- Punitive risk weightings can alter sound investment, ALCO, or interest rate risk mitigation strategies and reduce returns.

### **Individual Minimum Capital Ratio (IMCR) authority**

As written the proposal gives the NCUA authority to require higher minimum RBC ratios for individual credit unions based on NCUA expertise. This needs to be clarified to prevent unfair and inconsistent interpretations and applications as well as provide for an appeal process to an independent 3<sup>rd</sup> party, as it is highly unlikely the NCUA will disagree with itself during an appeal. As written, this power will lead to mistrust between credit unions and the NCUA and we are strongly advocating the removal of this provision.

In conclusion, DFCU recommends the NCUA abandon the entire proposed rule and continue with the current risk based net worth requirement structure in place, as it does not handcuff well run credit unions in a material way. Thank you for the opportunity to comment this important and potentially industry changing regulation.

Sincerely,

Jeremy Zager, CFO