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April 22, 2015

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

RE: RIN 3133-AD77

Prompt Corrective Action- Risk-Based Capital

Dear Mr. Poliquin,

On behalf of San Antonio Federal Credit Union (SACU), we would like to thank the National Credit Union Administration (NCUA) for consideration given the comment letters submitted in response to the Agency's original *Risk-Based Capital Proposal* registered 02/27/2014. SACU submitted their comments, and we commend the NCUA on responding to several of our concerns as noted in your second proposal. We also appreciate the opportunity for an open comment period on the second proposal, and respectfully address our concerns and offer possible improvements towards the final regulation.

<u>702.104(c) Risk-Weights for On-Balance Sheet Assets - Mortgage Loans</u>

NCUA revised the risk weight on the 25-35% of assets and the >35% of assets categories; however, the weighting on the <35% of assets category remains higher than that of the BASELIII standards. As you are aware, when compared to other financial institutions, credit unions generally offer their members lower interest rates on mortgage products, which creates a greater demand for this type of loan. The higher risk weight may deter credit unions from offering mortgage products to their members.

Category	Sub-Category	NCUA Proposal	FDIC Weights
Real Estate Loans	Non-delinquent 1st mort R/E loans (excl. MBLs)		
	< 25% of assets	0.5	0.5
	25 – 35% of assets	0.5	
	> 35% of assets	.75	
	Other R/E and delinquent R/E		
	< 10% of assets	1	1
	10 – 20% of assets	1	
	> 20% of assets	1.5	

Given that the products are equal and that historical data demonstrates credit union losses from mortgage loans are significantly lower than losses incurred by other financial institutions, the risk weights for credit unions should be equal or lower. Therefore, to improve the final rule, at a minimum, consideration should be given to utilizing the current risk weights of the FDIC.

702.104(c) Risk-Weights for On-Balance Sheet Assets - Non-delinquent Collateralized Assets

NCUA defines a share-secured loan as a "loan fully secured by shares on deposit at the credit union making the loan" and yet assigns a 20% risk weight to the loan.

If the loan is fully secured by shares on deposit, there is no risk associated with the loan; therefore, to improve the final rule, consideration should be given to removing the risk weight associated to share-secured loans.

702.104(c) Risk-Weights for On-Balance Sheet Assets – CUSOs

NCUA issued a final rule on CUSOs on 12/03/2013 in which NCUA recognized that CUSOs benefit both credit unions and credit unions members. The final CUSO rule gave NCUA the ability to accurately inventory CUSOs and evaluate their financial and operational condition, which was imperative to mitigating risks to the NCUSIF. Additionally, the final rule focused on CUSOs engaging in certain complex and high risk activities by requiring additional reporting. This said, the second proposal continues to outline a risk weight associated with Investments in CUSOs without taking into consideration the risk assigned in participation with that CUSO.

CUSOs	RBC1	RBC2	FDIC
Loans to CUSOs	1	1	1
Investments in CUSOs	2.5	1.5	1-6

Given the rule issued in December 2013, setting a risk weight of 150% for Investments in CUSOs is unnecessary and could discourage credit unions from collaboratively sharing risk, managing costs, and delivering services to credit union members. NCUA should consider allowing the current rule, which places additional focus and reporting standards on higher risk activities, to address the safety and soundness concerns raised by the NCUA Board in their final CUSO rule.

702.104(c) Risk-Weights for On-Balance Sheet Assets - Mortgage Loan Servicing/ Loan Participation

The second proposal did not indicate any changes to the risk weight for Mortgage Loan Servicing/Loan Participations which was listed at 250%. NCUA noted in the second proposal it did not agree with credit unions who "indicated this risk weight would discourage the granting of loans, engaging in loan participations, and retaining servicing of their member loans, as banks have been subject to these stringent risk weights and continue to sell loans and retain MSAs." SACU, respectfully disagrees with this statement. Historically, credit unions have higher underwriting standards than banks. Loan participations are regulated by

Part 701.22, which was intended to better assist credit unions with the management of the potential concentration risks associated with participations agreements.

NCUA should consider lowering this risk weight to no more than 150% and allow the changes made in 2013 to parts 701 and 741 to play out their part in the management of loan participations.

As mentioned in our first letter, we understand and appreciate NCUA's efforts in addressing future credit union losses to the NCUSIF and *if* the NCUA finds a rule necessary, we ask that you take the aforementioned comments into consideration.

Thank you for the opportunity to comment. We are hopeful that NCUA finds these suggested improvements useful.

Sincerely,

Eric Malagamba
CFO
San Antonio Federal Credit Union