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April 20, 2015

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

Via e-mail: regcomments@ncua.gov

Re: Comments on Proposed Rule: Risk Based Capital, 12 CFR Parts 701, 702, 703, 713, 723 and 747

Dear Mr. Poliquin:

Thank for your consideration of our comments from Democracy Federal Credit Union on the National Credit Union Administration's ("NCUA") recent proposed rule, Risk-Based Capital ("Proposed Rule") issued on January 15, 2015.

Democracy Federal Credit Union has nearly 18,000 members, and $156 million in assets. We commend the NCUA for reviewing its initial proposal and substantially improving it. However, we still believe the Proposed Rule as it is now drafted is still unnecessary given the regulatory rules currently in place, which safeguard both our members and industry. That said, we would like to comment on the major areas of concern in the Proposed Rule and provide our recommendations for improvement.

Positive Points of the Proposed Rule
We would like to highlight the following positive aspects of the Proposed Rule which were changed from 2014:

1. Removing interest rate risk from the proposal;
2. Extended implementation period; and
3. Lowers well-capitalized threshold from 10.5% to 10%.

Opportunities for Continued Improvement of the Proposed Rule
The following areas are concerning and we would like to see removed or modified:

1. The NCUSIF deposit should not be a deduction from the risk-based capital numerator.
2. The concentration risk penalty for first mortgage loans and junior liens should be eliminated.
3. Investments in Credit Union Service Organizations ("CUSOs") should have similar risk weights as Loans to CUSOs.
4. The Proposed Rule is a complete overhaul of current credit union capital standards, thus it would be appropriate to incorporate a supplemental capital provision into the regulation and put it out again for further public comment.
5. The costs associated with the proposal outweigh the benefits.

Section-Specific Comments
In the following sections (in order by section number), we have highlighted in more detail the more problematic aspects of the Proposed Rule.

Section 702.104(b)(2) Risk-Based Capital Numerator Deductions:

The Proposed Rule deducts the NCUSIF deposit from the risk-based capital numerator. It is not clear as to what the NCUA's intent is regarding the NCUSIF deposit.

Recommendation
The NCUSIF deposit should not be deducted from the risk-based capital numerator or the risk-based asset denominator. The deposit is under the NCUA's control and it is supplementary to the capital available on a credit union's books in case of failure. Therefore, it should remain part of the risk-based capital numerator.

Section 702.104(c)(2) Risk-Weights for On-Balance Sheet Assets:

First Mortgage Real-Estate Loans (Excluding Commercial Real Estate):
The Proposed Rule would exacerbate the burden and costs by requiring higher levels of capital for those credit unions that hold first mortgage assets in excess of 35% of total assets.

Recommendation
Eliminate the higher risk-weights for concentrations of residential first mortgage loans. Credit unions and their members will both benefit by not increasing their costs to fund these loans and credit unions will not be at a competitive disadvantage to other financial institutions.

Junior Liens:
As the housing market continues to recover, junior liens are becoming an important financial tool for homeowners to use.

Recommendation
Eliminate the higher risk-weights for concentrations of junior liens. This will ensure that credit unions will not be at a competitive disadvantage to other financial institutions.

Investments in CUSOs:
CUSO investments are proposed to have a risk-weight of 150% irrespective of the type of business that is conducted by a particular CUSO.

Recommendation
Bring the risk-weight in line with Loans to CUSOs as well as non-significant investments in unconsolidated equity for banks (100%) under the Proposed Rule and only apply the risk-weight to the original investment amount in the CUSO. This would be much more consistent with the inherent risk of the investment and serve not to penalize success of the CUSO.

Other Areas of Concern

***Supplemental Capital*:**
A credit union's net worth ratio is currently determined solely on the basis of retained earnings as

a percentage of total assets. The increased capital burden under this proposal heightens the need for supplementary capital.

Recommendation

We respectfully request that NCUA actively support legislation to allow federal credit unions to receive payments on uninsured, non-share capital accounts provided the accounts:

- Do not alter the cooperative nature of the credit union;
- Are uninsured;
- Are subordinate to all other claims against the credit union;
- Are available to be applied to cover operating losses of the credit union in excess of its retained earnings and, to the extent supplied, will not be replenished;
- Are subject to maturity limits as determined by the NCUA; and
- Are offered by a credit union that has been determined sufficiently well capitalized by the NCUA.

High Cost of Proposal

If finalized, the Proposed Rule will impose very high costs on the credit union industry. NCUA estimates that this proposal will cost credit unions roughly $5.1 million to review the rulemaking and make necessary changes to current policies.

Recommendation

The proposal should be revamped to reduce the initial and ongoing costs or completely eliminated. Current standards are sufficient. Credit unions that require closer scrutiny can be handled through the normal examination process.

Conclusion

As previously stated, the NCUA's revised proposal to create a risk-based capital standard is a step in the right direction. However, the Proposed Rule as written would still have significant negative capital consequences to credit unions and could place them at a competitive disadvantage relative to banks. Our recommendations would improve the Proposed Rule and allow credit unions to confidently operate under this new standard.

Sincerely,

Kathleen O. Geary

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