April 24, 2015

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

Re: Comment on Proposed Rule – Risk Based Capital

Dear Mr. Poliquin:

Please accept this letter as our, formal comment on the National Credit Union Administration's ("NCUA") recent proposed rule, Risk-Based Capital ("Proposed Rule") issued on January 15, 2015. As the Chief Executive Officer of Desert Schools Financial Services, LLC; ("DSFS") a credit union service organization ("CUSO") and wholly owned subsidiary of Desert Schools Federal Credit Union located in Phoenix, Arizona ("Desert Schools"), I appreciate the opportunity to share our comments and recommendations regarding the Proposed Rule with the Agency.

On behalf of our CUSO, we commend the NCUA for reviewing its initial proposal and substantially improving it. However, we believe the Proposed Rule as it is currently drafted still falls short of what is needed and we remain concerned with the overall regulatory approach taken by NCUA on RBC. In this letter, we would like to respectfully address the following concerns and we are hopeful that the NCUA will further modify or remove certain elements from the final regulation.

DSFS' primary concern stems from the proposed risk weighting of 150% assigned to CUSO investments irrespective of the type of business that is conducted by a particular CUSO. While this is certainly an improvement over the originally proposed 250% risk weight, please consider that not all CUSOs pose systemic risk to their credit unions.

CUSOs promote collaboration and risk sharing within a credit union structure and have been largely successful over the years. While there have been some losses since 2008 in CUSOs, the losses stemming from the holdings are substantially smaller than losses experienced in loan portfolios or corporate credit union related exposures.

Given the range of services that a CUSO can perform (and inherent risk associated with that service), this risk-weight seems arbitrary and punitive depending on the type of service provided by a CUSO. For example, a CUSO specializing in member business loans would typically have a higher risk profile than an investment services CUSO and certainly more risk than a CUSO that supports the back office. Further, the FDIC defines non-significant investment exposures in unconsolidated equity of a privately held company in aggregate of 10% or less of a bank's capital (risk weighted at 100%). Federal credit unions are limited by statute or regulation to a maximum aggregate investment in CUSOs to 1% of shares minus any regular or special reserves. Given that over 97% of all federally insured credit unions were well capitalized at the end of 2014, most investments in CUSOs (even when maxed out at 1% of shares) would fit the definition of non-significant by the FDIC and should thus be risk-weighted at 100%.

Another deficiency of the CUSO risk-weight proposal is that the 150% risk-weight is based on current value of the CUSO investment, rather than the initial investment, thus penalizing growth (or success) in investment value.

DSFS recommends that the NCUA 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 the success of the CUSO. Further, the NCUA board recently passed the final CUSO regulation which authorizes them to regulate the investments and loans a credit union makes to a CUSO. This enhanced authority and oversight support a lower risk-weight.

DSFS respectfully recommends that before an onerous standard is established, NCUA take the time to gather the information through the new reporting requirements for CUSOs and then respond to the <u>actual</u> risk rather than the <u>perceived</u> risk. The proposed implementation date under the Proposed Rule is eighteen months after final passage. DSFS suggests that a longer implementation plan be considered so that factual, empirical data can be sufficiently gathered before the NCUA acts or publishes the final rule.

DSFS urges the NCUA to consider that the Proposed Rule will:

1. Impede the ability of CUSOs to innovate and provide collaborative solutions that will sustain credit unions;

2. Discourage the growth of existing CUSOs and the formation of new CUSOs and inhibit or discourage credit unions from investing in CUSOs;
3. Take a one-size fits all approach to the risk without consideration of empirical data, the type of services provided by the CUSO, and determining where the significant risks really exist;
4. Penalize the investing credit union for the growth and success of the CUSO beyond their initial investment which will harm members and will create an uneven playing field with our banking counterparts.

In closing, thank you for the opportunity to comment on the Proposed Rule and for considering DSFS's positions.

Respectfully submitted,

Becky L. Nilsen
Chief Executive Officer