April 27, 2015

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

RE: Risk-Based Capital Proposed Rule
RIN 3133-AD77

Dear Mr. Poliquin,

As a member and an employee of Digital Federal Credit Union, I would like to express my sincere appreciation for the opportunity to convey my comments on the proposed risk-based capital requirements. I recognize and commend the Agency to accept unprecedented feedback from throughout the Credit Union industry and making substantial changes to the original Risk Based Capital Proposal. Please accept this response as input and feedback to the Risk-Based Capital Proposed Rule.

- **<u>Real Estate Loans</u>**

  The Proposed Rule risk-weights the entire real estate portfolio with consideration of concentration risk of the portfolio to total assets of the credit union. The Proposed Rule does not consider the types of real estate loans within a credit union's portfolio. For example, a credit union's real estate portfolio's adjustable rate loans and/or shorter term loans, such as 10-year fixed rate loans, have far less risks than the portfolios' 30-year fixed rate loans. The Call Report currently has information disclosed at some level of detail for a credit union's real estate portfolio. Therefore, the NCUA should further segment a credit union's real estate portfolio to then risk-weight the varying risks within a credit union's real estate portfolio.

- **<u>Mortgage Servicing Assets (MSA)</u>**

  The revised Proposed Rule did not change MSA's risk weight of 250%. The NCUA should decrease the risk-weight of such an asset as such a high weight does not accurately reflect the risk to capital of a credit union. Additionally, the NCUA should consider the two alternative methods of carrying MSA under generally accepted accounting principles. A credit union is allowed to account for MSA at fair value or at the lower of cost or market. Using either methodology, the maximum value would be reflected as the market value. In either situation, any reduction in market value or impairment would be reflected as an earnings adjustment, to reflect any deterioration in value.

- **Treatment of Mutual Fund Investments**

  The "full look-through" approach described in the Proposed Rule fails to apply risk-weights to mutual fund investments in a consistent manner to the holding of the same securities by credit unions directly. For instance, a credit union that holds "U.S. Treasuries and Government Securities" would assign a risk-weight of 0% to such holdings. In contrast, an investment fund, with similar U.S. Treasuries and Government Securities, would have a risk-weight of 20% assigned to this asset. This disparity in the treatment of the same asset when held by two different entities unnecessarily discriminates against a credit union's investments in mutual funds by penalizing the credit union for making the same investment indirectly that they could otherwise make directly. Further, the added layer of risk that the Proposed Rule assumes will be present for indirect investments is not a factor with mutual funds. Mutual funds provide daily redemption at net asset value and generally provide sold share proceeds to the investor on the next business day.

  The NCUA should revise the RBC regulation so that mutual fund risk-weights are consistent with the risk-weights on the underlying instruments. We suggest a full look-through approach that is attuned to the distinctions between underlying assets that would allow low-risk mutual funds to carry risk ratios ranging between the 0% and 20% based upon the actual risk ratio of their holdings.

  We also suggest that the Proposed Rule be clarified to indicate the timing of "the most recently available holdings reports" that are to be used by credit unions employing the full look-through approach for their analysis of investment fund assets.

Off-Balance Sheet Activities

The Proposed Rule creates a competitive disadvantage for credit unions in relation to banks for off-balance sheet activities, particularly unfunded consumer loans. While the NCUA recognized the disparity in the original Proposed Rule and reduced some of the risk-weights for unfunded consumer loans, additional reduction within the final RBC regulations to the credit conversion factor and risk-weights are necessary. The arbitrary credit conversion factor of 10% for unfunded consumer loans is too high.

When considering unfunded unsecured consumer loans under the Proposed Rule, as of December 31, 2014, the industry's RBC ratio would decrease by about 0.11% by simply considering such available unfunded balances. The NCUA should reevaluate off-balance sheet activates to ensure credit unions are not at a disadvantage in the marketplace.

Other Supplemental Forms of Capital

The NCUA's efforts are strongly supported and urged to extend this work to incorporate supplemental capital for all credit unions. The need for capital modernization continues as credit unions experience the challenges with no alternatives for growth opportunities beyond their ability to generate retained earnings. Credit unions seek supplemental capital as a tool to increase loan portfolios and other growth opportunities for its cooperative plans and goals. If the Proposed Rule is finalized, it should include the supplemental capital within its framework.

Thank you for the opportunity to comment on this important proposed regulation, one that will have a significant impact on the credit union movement for generations to come.

Thank you in advance,

Megha Singh
Digital Federal Credit Union