April 27, 2015

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

Via email at regcomments@ncua.gov; Denali Alaskan FCU – Comments on Proposed Rule: Risk-Based Capital; RIN 3133-AD77

**Re: Comments on NCUA's Proposed Rule: PCA–Risk-Based Capital; RIN 3133-AD77**

Dear Mr. Poliquin:

On behalf of Denali Alaskan Federal Credit Union (DAFCU), thank you for this opportunity to comment on the agency's proposed rule on risk-based capital (RBC). I appreciate the progress made in the second iteration of the rule (RBC2), and am encouraged that many of the concerns expressed by credit unions, the Federal Home Loan Banks (FHLB), and other industry partners have been addressed.[1] Although RBC2 is a substantial improvement over last year's original proposal (RBC1), a number of areas that need improvement remain unaddressed or inadequately revised.

I must stress that there is no need for this rule; RBC2 is an agency solution searching for an industry problem. Credit unions performed very strongly during the 2008-2010 financial crisis, especially as compared to banks. There is no evidence that credit unions were undercapitalized or that if the capital requirements proposed had been in effect, there would have been any material reduction in losses.

Following are our comments on RBC2 and a discussion on some remaining clarifications and revisions that must be addressed to ensure RBC2 will not have unintended consequences for credit unions and the communities we serve.

## Specific Issues & Areas of Concern

### Risk Weights

Many of the risk weights in RBC2 have been reduced to more appropriate levels of capital requirements, and we appreciate the changes made thus far. However, though the risk weights for higher concentrations of mortgages and business loans have been reduced, the risk weights for CUSO investments (150%) and mortgage servicing assets (250%) are still inappropriately high, could affect our ability to own and operate CUSOs and retain mortgage servicing rights in our community, and must be reduced.

### Interest Rate Risk

Though interest rate risk (IRR) capital rules are not included in RBC2, we are concerned about how IRR will be addressed within the context of prompt corrective action (PCA). IRR should not be incorporated

[1] The FHLBs are government-sponsored enterprises (GSE) organized under the authority of the Federal Home Loan Bank Act of 1932 and structured as cooperatives. The primary mission of the FHLBs is to provide liquidity to their members to facilitate housing finance and community development. The FHLBs serve the general public interest by making liquidity available to nearly 7,400 member financial institutions, including more than 1,200 credit unions.

into the risk-based capital system, or in any way attached to the current PCA system. The NCUA already has an extensive set of IRR rules, regulations, and guidance in place that provides sufficient mitigation protection against rising interest rates. There are multiple ways by which to evaluate IRR; if NCUA selects and fixes just one in RBC2, it would unnecessarily restrain a credit union in managing its IRR. If any additional IRR-management steps are necessary, they can be implemented through the collaborative rulemaking process and individually through the examination and supervision process.

**Supplemental Capital**

We are disappointed and concerned that RBC2 does not address the urgent need for credit unions to access and use supplemental capital. NCUA has the authority to include supplemental capital in the RBC calculation, and to permit the use of supplemental capital for RBC purposes beyond the existing ability of low-income designated credit unions to count supplemental capital as net worth.

**Federal Home Loan Banks & Mortgages**

I serve on the Board of the FHLB of Seattle, which is a uniquely-held position for a credit union. I share the concerns with the FHLBs regarding the risk weights for certain mortgages. In addition to the concerns discussed above about the inappropriately high risk weights for mortgage servicing assets (250%), the high risk weights assigned to certain first-lien (75%) and junior-lien (150%) residential real estate loans could negatively impact mortgage lending in the communities served by credit unions.

RBC2's risk weight of 75% for first-lien residential real estate loans with concentrations greater than 35% of total assets is still too high, and significantly higher than the 50% risk weight applied by other federal banking regulatory agencies. RBC2's risk weight of 150% for junior-lien real estate loans that comprise greater than 20% of total assets is also markedly higher than the 100% risk weight applied by other federal banking regulatory agencies.

These provisions do not address the underlying attributes of these mortgages, nor the degree in which they could be match-funded, which could thereby restrict lending and curtail profitability and capital growth at well managed, risk-averse credit unions. Therefore, we urge the NCUA to reconsider and revise the risk weights for mortgage loans held on a credit union's balance sheet to be more consistent with the requirements from other federal banking regulatory agencies.

Thank you again for this opportunity to comment on proposed RBC rules, and please do not hesitate to contact me directly for follow up or with any additional questions you may have. I can be reached at (907) 257-9408 or by email at bobt1@denalifcu.com.

Sincerely,

/s/

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Robert (Bob) M. Teachworth
President & CEO
Denali Alaskan Federal Credit Union