_Regulatory Comments

From: Marv.Elenbaas@dfcufinancial.com
Sent: Friday, February 20, 2015 4:13 PM
To: _Regulatory Comments
Subject: DFCU Financial - Comments on Proposed Rule: Risk-Based Capital

Thank you for the opportunity to comment on the revised Proposed Rule:
Risk-Based Capital. DFCU Financial is a $3.7 billion asset state-chartered, federally insured credit union headquartered in Michigan.
As we stated in our comment letter to the previous proposal. we support the NCUA's effort to develop a risk-based capital ratio that arrives at the required level of capital based on the unique risks of each credit union.
We believe it is appropriate to have a combination of a risk-based capital ratio and a one size fits all minimum leverage ratio (e.g., the net worth
ratio) at its current level.

We applaud the NCUA for listening to the commenters, and making substantial revisions to the proposed risk-based capital rule. This version of the proposed rule corrects for nearly all the flaws we noted in the previous draft.

As we recommended, the NCUA (mostly) conformed risk weightings in its new risk-based capital proposal with risk weightings in bank risk-based capital, and explained when it differed. Also as we recommended, the NCUA modified the minimum capital requirement and allowed for an improved transition. We agree with treatment of goodwill, intangibles and the NCUSIF deposit in the new proposal.

Removing interest risk from risk-based capital, as we recommended, was appropriate, but we do not believe there needs to be a new rule on interest rate risk. The FFIEC 2010 Advisory on Interest Rate Risk Management, to which the NCUA was a signatory, provides sound practices for interest risk management. We believe this Advisory, along with subsequent regulatory responses to questions regarding the Advisory, provide financial institutions with sufficient guidance on interest risk management and provide regulators with sufficient guidance for examining interest risk management. Interest risk management cannot be regulated by a standardized rule, since it is unique to each credit union and therefore should be "examined" at each credit union.

Concentration risk remains, unnecessarily, in the proposal and as we stated before, concentration is best "examined" at each credit union as is done at banks. None of the main concentrations, commercial loans, first lien 1-4 family real estate loans/lines of credit and junior lien 1-4 family real estate loans/lines of credit, are discouraged by bank risk-based capital.
While the NCUA commented that the concentration rule would currently only affect a few outliers, this rule needs to work in the future, not just the present. If the NCUA remains committed to keeping concentration in risk-based capital, we believe that fifty (50) percent should be the discouraged concentration level for any secured loan category. That is more a common-sense level of concentration for properly underwritten, secured loan than, for instance, 35 percent for first lien 1-4 family real estate loans/lines of credit and 20 percent for junior lien 1-4 family real estate loans/lines of credit. A concentration limit less than 50 percent would make more sense for unsecured loans (e.g., credit card loans)

The new proposal appropriately requires capital for off-balance sheet activities. However, from our reading of the proposal it seems to require capital for off-balance sheet exposure that is unconditionally cancelable (i.e., without cause). We do not believe this exposure should require capital, especially if the exposure is for less than one year. We recommend that the NCUA adopt a bank-like off-balance sheet risk-based capital regime, where exposures that are unconditionally cancelable and are less than one year receive preferential capital treatment.

Thank you for your time.

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