VERITY
CREDIT UNION

Mr. Gerald Poliquin
Secretary to the NCUA board
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Comments on Proposed Rule: PCA - Risk Based Capital

I am writing on behalf of Verity Credit Union, Docket #68517, which currently serves 27,010 members and has assets of $438,012,462. Verity Credit Union very much appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on it proposed rule entitled Prompt Corrective Action Risk-Based Capital.

Verity Credit Union's original charter started in 1933 serving federal government and military employees. We now operate as a State Chartered credit union committed to providing a full-range of products and services to anyone that lives, works, worships, or goes to school in any county within Washington State. We take special pride in the evolution of our mortgage operations by building a strong team with many years of experience and expertise in everything mortgage including compliance, origination, and servicing. We truly consider this to be a core competency of the credit union. In addition to providing our own members the benefit of a trusted advisor in home ownership, we afford this same service to (13) other partner credit unions and their members which in total amounts to over 180,000 potential members.

While it is true that Verity Credit Union would remain Well Capitalized under the new guidelines (11.15%), we also were able to remain well Capitalized during the entirety of the economic downturn. Our capital cushion however, would shrink dramatically from 212 basis points to only 65 basis points as of December 31, 2013. In order to increase this cushion, we would need to either increase income or change the mix of loans offered to the members. Both of these options are likely to have a negative impact on our members. Of special concern to us would be the need to curtail making mortgage loans given the strong disincentive included in the proposed rule. This not only impacts our ability to serve our member mortgage needs but impacts the other partner credit union members we serve. Mortgages are a volume business to be profitable. If we were discouraged to make mortgage loans in order to meet the regulatory guidelines for this proposed rule, there would be increased pressure on our bottom line, and would prompt us to find other avenues to make up for the lost income in the way of increased fees charged to members.

Verity believes the proposed risk-weights for non-delinquent first mortgage real estate loans are too high and penalize us for booking loans that are not inherently risky. The risk weights <u>do not</u> take into consideration any factors that could indicate whether the loans are more or less likely to default, including the loan-to-

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value ratios or credit scores of members who get the loans. These factors should be used to lower the amount of capital required to be held for loans that are safer than others.

Likewise, we feel assigning mortgage servicing assets a 250 percent risk-weighting is artificially high and excessive. NCUA should take into consideration whether the loan is recourse vs non-recourse. Loans sold without recourse but are serviced by the credit union carry inherently much less risk and could be assigned an even lower weighting of perhaps100 percent. Consideration for a lower risk-weight for Mortgage Servicing Assets of 150 percent for loans sold with recourse would be more reasonable.

We question whether the risk weighting proposed actually matches real risk in the system. The proposed rule assigns rigid risk-weights to many investments that when properly examined represent much less risk. In addition, the proposed rule uses the investment risk-weights to compensate for interest rate risk. Verity contends that we already monitor and control for interest rate risk through our own internal policies, guidelines, and triggers in accordance with NCUA examination and supervision standards. We do not believe it is necessary for a risk-based capital guideline to perform this function. If NCUA deems it necessary to keep interest rate risk built into the investment risk-weights, consideration should be given to not penalize short or medium term investments (1-5 years). An alternative system could condense the buckets but still capture the long-term investments that would raise the most interest rate risk flags. Consider buckets as indicated below:

0-5 years:	20 percent
5-10 years:	100 percent
>10 years:	200 percent

The proposed rule increases NCUA authority to impose additional capital requirements on credit unions based on the subjective opinion of the examiner. The subjective nature of this process causes us great concern and anxiety as it simply adds another layer of complexity to the rule and makes for more of a moving target for management to deal with.

With respect to the 250 percent risk-weight for investments in CUSO, this seems very arbitrary in nature and does not necessarily reflect the actual risk of investing in CUSOs. We greatly value the collaborative support and service that CUSOs afford us as well as other credit unions. Verity in fact has established a very successful mortgage CUSO called Credit Union Home Mortgage Solutions, LLC that currently provides (13) other credit union partners mortgage origination and servicing that they might not otherwise be able to afford given their level of internal expertise or infrastructure. We feel this ability to offer their members an avenue to an affordable and efficient process is invaluable. There are many other CUSO opportunities that Verity would like to pursue in order to gain efficiencies or cut costs. Under this proposed rule we would be forced to reconsider investments in CUSOs in the future. We fell that CUSO investments should be risk-weighted at

100 percent. Any exceptions to potential risk through a CUSO investment should be managed through the examination and supervision process rather than by a system-wide capital system.

The proposed implementation period after passage of the final rule in the Federal Register does not allow enough of a timetable for us to adjust our balance sheet, particularly given the size of our existing mortgage portfolio. The rule as it is currently proposed will require Verity to vastly affect its strategic planning to accommodate safe and sound decisions about some fundamental changes to our core business decisions including mortgages, investments, and other product offerings. Verity believes a three year implementation period more appropriately compares to the time frames given to the banking industry by their regulators and will allow us adequate time to plan and prepare for the change.

Furthermore, we continue to believe that legislative risk-based capital requirements are needed to create a fair system and urges the NCUA to consider these changes. Thank you for the opportunity to comment on this proposed rule and for considering our views on risk based capital requirements.

Sincerely,

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