MOUNTAIN AMERICA
FINANCIAL SERVICES

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May 15, 2014

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

Re: Proposed Prompt Corrective Action – Risk-Based Capital Regulation Comment

Dear Mr. Poliquin:

Mountain America Financial Services LLC, (MAFS) is wholly owned Credit Union Service Organization (CUSO) providing insurance and other services to the members of Mountain America Federal Credit Union (MACU). I respectfully submit the following official comment letter regarding the NCUA's recently proposed, risk-based capital rule.

CUSOs provide an excellent way for federally chartered credit unions to increase capital in an environment where their capital options are limited. The proposed changes of increasing the investment risk metric to 250% for CUSOs appear excessive, especially as compared to other risk ratings. Some of those other ratings are much lower at 100% or 150% but are attributed to much riskier investments, like delinquent consumer debts or delinquent first lien mortgage loans. It seems counter-productive to arbitrarily risk rate investments in CUSO at a higher level even when such operations may be less risky than the examples shared. This is not an invitation to change the risk rating for other investments. The comments are meant to point out disparity between the rating proposed on lower risk CUSO investments versus the current lower ratings for higher risk investments.

Since CUSOs provide a wide range of services, it would make sense to consider a tiered rating structure. An all-encompassing one-size-fits-all CUSO risk rating does not take into consideration (a) the types of services provided, (b) whether the investment represents necessary operational expenses that would be otherwise incurred, (c) whether the amount invested is material, (d) whether the CUSO has a history of profitability, or (e) whether the investment amount has been fully recovered by the credit union through savings or income. Even if there is a risk assessment for the initial CUSO investment, there is no reason to continue a risk assessment if the amount of the investment has been fully offset by net income or cost savings for the credit union that was generated by the CUSO as is the case with Mountain America Credit Union and Mountain America Financial Services.

In the case of MACU, it has chosen to outsource some of its servicing of insurance products for its loans to MAFS to gain efficiencies in operations. This proposal would penalize MACU, and any other credit union, for transferring these services to a CUSO rather than keep them within the umbrella of the credit union. Yet they are still operations necessary to the function of the credit union. Many smaller credit unions find added value in partnering with CUSOs to provide services at a lower cost than if provided internally. A 250% risk rating is a penalty to these organizations who are trying to find viable ways to reduce expense and improve income.

It appears that the NCUA intends to apply the CUSO capital risk rating to both the cash investments made by the credit union and upon the appreciated value retained in the CUSO. This methodology penalizes the success of a CUSO by requiring that the credit union set aside additional capital based on the retained profits earned by the CUSO.

It has been our observation and our experience that CUSOs have been extremely successful in helping credit unions generate net income and the very capital that NCUA seeks. We want to share those observations and experiences.

Mountain America Federal Credit Union benefits from MAFS providing the services for all of its consumer loan protection products. The products serviced include collateral protection insurance, credit life and disability coverage, vehicle protection plans and Guaranteed Asset Protection policies. These products alone now contribute $1,740,000 in direct annual revenue to the credit union.

MAFS serves thousands of credit union members with life, Medicare, property and casualty and many other consumer insurance products. Insurance products are backed by multiple reputable insurance carriers. Revenue from insurance sales adds over $100,000 revenue to MACU annually.

MAFS operates tax preparation services for its parent credit union. Through this program over 6,000 individual member's personal tax returns were prepared this year. In addition, 25% of the paid returns resulted in additional services being referred to credit union staff resulting in more value added services being made available to credit union members.

Looking back over the past seven years, MAFS has contributed over $18 million in direct net income to MACU. There have been no years where a net loss was recorded. MACU has been able to recover all of its initial investment in MAFS and is now receiving perpetual revenue, from the ongoing operation, which goes directly toward building the capital of the credit union.

By utilizing the services of the CUSO, MACU has been able to significantly improve product penetration and utilization of products by members. It has enabled greater focus on managing the services because a dedicated team can address issues, respond to changing regulation and to provide the best source of service to members. In addition, products, not able to be provided by the credit union, are available to members through the CUSO. Leveraging the CUSO in this way helps solidify the relationship with the credit union member. There is no reason that the member cannot enjoy additional services from an organization they already know and trust.

Some additional benefits are the efficiencies Mountain America has gained by combining all insurance within its CUSO. One key component is not having insurance products distributed across multiple verticals within the credit union. Centralized duties and management has proved efficient. It has also enabled the credit union and CUSO to gain specialized talent and to develop that talent in a way that leverages the expertise and competitiveness of the organizations. Higher revenue percentages have been realized since the CUSO has been able to become broker of record with insurance carriers which could only be possible through the establishment of a wholly owned CUSO insurance agency.

Had the proposed changes been in effect at the time Mountain America Credit Union chose to move forward with its CUSO, the limitations proposed might have likely deterred its entrance into the marketplace. One could infer that other credit unions will see these proposals as significant barriers to expanding member service in areas where CUSOs are necessary. These proposals stifle the very growth and stability the NCUA is seeking to obtain.

Once again Mountain America Financial Services strongly opposes the 250% one-size-fits-all rating and respectfully encourages the board to take a more researched, measured, and fair approach that accounts for the many variations of risk among CUSOs.

Thank you for the opportunity to comment.

Sincerely,

Jared M. Johnstone
President