Community Mortgage Funding

May 20, 2014

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22134-3428

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

Dear Mr. Poliquin:

Community Mortgage Funding (CMF) is a CUSO who has been providing mortgage-related services (Origination through Loan Servicing) exclusively to credit unions since 1999. On behalf of CMF, I would like to provide the following official comment letter regarding the NCUA's recently proposed risk-based capital rule.

We believe that the CUSO investment risk metric of 250% is excessive especially as compared to other risk ratings. For example, delinquent consumer debt over sixty days as well delinquent unsecured credit card debt is risk rated at 150% and delinquent first lien mortgage loans are risk rated at 100%. Yet investments in CUSOs that have added millions to the bottom line of credit unions are arbitrarily deemed riskier. We do not understand this reasoning.

CUSOs provide a wide range of services. The one-size fits all CUSO risk rating does not take into consideration (a) what types of services are being 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 unions through savings or income. Even if there is a risk assessment for the initial CUSO investment, there is no reason to continue to have 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.

While there are some CUSOs that are designed to return a profit through dividends, many CUSOs provide a return to the credit union owners by the reduction of operating costs or fees paid directly to the credit unions in the form of networking fees and not dividends. NCUA's choice of equating a CUSO to a bank investing in an illiquid small business, misses the true risk and return factors. For example, when a credit union is deciding whether to pay the expenses for running an operational service through the credit union or it's CUSO, money has to be expended by the credit union either way. If multiple credit unions pool their funds in a CUSO to provide an operational service, the money pooled is not an investment in the classic sense and should not be risk-rated as such. If the credit unions choose a CUSO to provide an operational service, it is because each credit union will save money, and often receives

3201 W. Temple Avenue, Suite 120 Pomona, CA 91768
Phone (909) 444-0050 **Toll Free** 877-915-3030 **Fax** (909) 444-0145

greater expertise than they could afford on their own. Why must risk capital be reserved by the credit unions in order to save money and generate income?

We have been advised that NCUA intends to apply the CUSO capital risk rating to both the cash investment made by the credit union and upon the appreciated value in the CUSO. We find it hard to fathom that NCUA would penalize the success of a CUSO by requiring the credit union reach into its pocket and set aside additional capital on the profits earned by the CUSO.

Unlike the banking investment powers, the CUSO risk exposure is limited to an immaterial level. There are only 22 basis points of credit union assets invested in CUSO's industry-wide; less than the aggregate corporate assessments. Each federal credit union may only invest less than 1% of assets in CUSOs. Credit unions could lose all the CUSO investments and the loss would not be material yet the upside potential could be very significant. NCUA would be making a big mistake by not recognizing the adverse policy implication of applying the inconsistent BASEL bank investment risk ratings to CUSO investments.

In addition to the above referenced concerns about the risk weighting of CUSO investments, we are also very troubled by proposed Section 702.105(c). Unlike under the exiting statutory net worth rules known as Prompt Corrective Action (PCA) regulations, credit unions will no longer have clear rules by which to run their credit union to avoid prompt corrective action by their regulatory agency. NCUA can "move the goalposts" any time they want. Why have any tables of risk rating if the levels can be changed on a credit union by credit union basis?

This proposed section invites inconsistent and potentially arbitrary applications of rules. To provide the clarity of capital and net worth expectation that a credit union board and management team must have in order to make strategic business and fiduciary decisions, subjective standards must be eliminated. Therefore, in our view, Section 702.105(c) should be deleted in its entirety.

We know first-hand of the struggle credit unions have to generate net income in today's economic climate. Interest rates are at record low levels. The operational costs, especially in areas of personnel costs, compliance and technology are increasing exponentially. Coupled with the challenges most credit unions are experiencing in generating quality loans, the average net interest margin in the industry is very thin and in some credit unions the net interest margin is even negative.

It has been our observation and our experience that CUSO's 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.

CMF was formed in 1999 and has helped thousands of members either purchase their first home, move-up into a new home or refinance their existing home; in turn savings these members thousands of dollars. We have provided both our shareholders and participating credit unions with an opportunity to consistently provide mortgage services to their members, even in the most challenging economic times in recent history. Our clients have been able to look to us a full-service mortgage partner, providing origination through loan servicing support. Over the years we have prided ourselves on acting as an extension of our partner credit unions; achieving and maintaining member-service levels in comparison to and in many cases even exceeding their results, in what by far is the single most complicated transaction their member's will experience.

In addition to our member service delivery, our financial results speak for themselves. When mortgage companies throughout the nation were closing their doors, we consistently achieved profitability;

increasing our shareholders return on investment, while providing their members with a "trusted – partner" who continued to offer viable homeownership opportunities while also striving to work diligently with existing members to keep them in their homes.

Our shareholders original investment has grown by over 125% and their mortgage-related operational costs have remained at zero. As the regulatory complexity within the financial services industry and in particular mortgage lending increases, our mortgage CUSO has and will continue to play and increasingly important and crucial part of their business operations.

The proposed implementation date is eighteen months after final passage. This is an unreasonably short time period considering the long term and significant impact of this new rule on credit union strategic business decisions. Credit unions have very limited means to raise capital under present statute and regulation. It will necessarily take a considerable amount of time to make adjustments within the balance sheet when the rules are suddenly changed. We recommend that an implementation period of no less than three years from final passage is much more appropriate. Again, in the interest of comparability, this is much more consistent with the timeframes given the banking industry as their regulators have implemented the BASEL capital standards; even though they have more access to capital management and capital building option than credit unions.

The true risk is not the investment or loans to a CUSO, rather it is not investing in a CUSO to share risk, reduce costs and increase income. We encourage NCUA to implement regulations that encourage the use of CUSOs to generate net income and remove all regulatory impediments to CUSOs and collaboration. We recommend the removal of risk ratings for CUSO investments and loans immaterial, inapplicable to CUSO investments and to encourage CUSO investment for policy reasons.

Thank you for the opportunity to comment.

Very truly yours,

Andrea M. Blais

Andrea M. Blais, CMB
CEO

cc: Deborah Matz, Chairman
Michael Fryzel, Board Member
Richard Metsger, Board Member