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May 28, 2014

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

Re: Prompt Corrective Action – Risk Based Capital Comment Letter
Canton School Employees Federal Credit Union - #2535

Dear Mr. Poliquin:

Thank you for the opportunity to provide comment to the National Credit Union Administration Board on the proposed rule for Prompt Corrective Action – Risk Based Capital. I am writing on behalf of the Board of Directors and membership of Canton School Employees Federal Credit Union located in Canton, Ohio. We are a $200 mil asset community chartered credit union, serving over 36,000 members in Stark County, Ohio.

Canton School Employees FCU applied for and received a community charter to serve Stark County in 2003. At that time, the Board of Directors made the commitment to serve all members of our community. That decision and commitment to serve our community has proven to be both successful and at the same time challenging.

In 2012, Canton School Employees received a Low Income Credit Union designation from the NCUA. At the time of the designation, 67% of our membership met the criteria to be considered low income. That fact, coupled with our commitment to serve all members of our community has enabled our credit union, in a very measureable way, to fulfill the mission and central purpose of credit unions – making credit available to people of modest means.

With that commitment comes risk. We understand that. Our Board has measured that risk and we have policies and procedures in place in our lending program to monitor and mitigate that risk. In addition, while still in compliance with GAAP, we aggressively fund the Allowance for Loan Loss to cover the eventual losses that occur with sub-prime borrowers. And, we have demonstrated success with this business model. With the exception of 2013 results, prior years have produced financial results well in excess of our peer's performance in many key areas. Last year was an exception. Losses increased significantly, however, we had more than adequate cash flow to support the elevated level of charge offs and now are back on track to post positive results.

The point is that the Board of Directors of Canton School Employees FCU has evaluated the business model, weighed the benefits and the risks, and has measures in place to mitigate and manage the risk associated with its execution. While no Board including ours likes to experience a higher level of charge off, even if it is only temporary, we are aware that with our business model, it will happen.

Therein lies the basis for our primary concern with the Prompt Corrective Action – Risk Based Capital proposed rule. Currently we are considered well capitalized and under the proposal, according to the PCA calculator on the NCUA website, would remain well capitalized at 13.55% under the new standard. And, let me say that we agree with the central premise of the proposal that those credit unions assuming higher levels of risk should in fact, be required to hold higher levels of capital.

With that said, we strenuously object to the provision in the proposal creating an Individual Minimum Capital Requirement (IMCR) which could be arbitrarily imposed by an examiner based on "agency expertise" and their evaluation of risk levels in the credit union. Our experience has been that "agency expertise" varies greatly from examiner to examiner and from one exam to another. And, appetite for risk among the examiner staff varies greatly as well. Any system which provides for the imposition of a "moving target" with respect to capital level, especially in the absence of a meaningful appeals process, creates a climate of uncertainty which will in the end, negatively impact the provision of needed lending options to members that need credit union services the most.

Examiners have many other supervisory tools in place to address elevated risk levels in the loan portfolio without building in to the risk based capital calculation this totally discretionary component. Therefore, we respectfully request that section 702.105(c) be removed from the proposed rule.

In addition to the above, we believe that the NCUA Board should reconsider limiting the Allowance for Loan and Lease Loss to 1.25% of risk assets for inclusion in the numerator of the risk based capital calculation. Our funding formula in determining the proper balance for the ALLL as mentioned previously is aggressive, while at the same time, totally in compliance with GAAP. And furthermore, the Board has been proactive in insisting that full and adequate funding of the ALLL is an important risk mitigation element in our business model.

That being said, as of March 31, 2014 our ALLL balance was $3,626,375, however, given the 1.25% of risk assets limitation, only $1,647,261 is included in the numerator of the risk based capital calculation. That leaves almost $2 mil, readily available to cover loan losses, not included in the calculation. This ALLL limitation is significant and could potentially be more so in the future in light of proposed changes by the FASB to the rules covering ALLL funding. In summary, we believe that the 1.25% limitation on ALLL should be increased or removed.

Thank you once again for the opportunity to provide comment on the Prompt Corrective Action – Risk Based Capital proposed rule. We appreciate the NCUA Board's willingness to consider stakeholder comments and would welcome the opportunity to provide additional information if requested.

Sincerely,

R. Stanley Barnes
President/CEO