CASE
CREDIT UNION

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April 17, 2015

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

Re: Prompt Correction Action; Risk-Based Capital Revision

Dear Secretary Poliquin:

On behalf of CASE Credit Union, please accept this response as input and feedback to the proposed changes to 12 CFR Parts 700, 701, 702, 703, 713, 723 and 747. First, we would like to express our gratitude and thanks for reading and considering all of the responses that were received to the first proposal. The changes made in the revised proposal were certainly moves in the right direction.

Overall, we agree that the current method of determining the risk based net worth (RBNW) ratio should be modified to be more comparable with the methods utilized in the financial institution industry (namely, the Basel III methodology utilized by the banking industry). We also believe that the revised proposal much more closely works to reach that goal. That being said, there are a couple of aspects of the proposed changes that raise concerns

Supervisory Assessment and Capital Adequacy Management Plans

While we understand the NCUA's concern regarding credit unions involving themselves in activities that they may not fully understand, we feel very strongly that having arbitrary and subjective determinations of increase RBNW requirements based on supervisory assessments and capital adequacy management plans are not appropriate. We are aware that there exists a large number of activities that are complex and can create long-term tribulations for credit unions (i.e. indirect lending, member business lending, mortgage lending, mortgage backed securities, etc.). We also realize that adequate training and knowledge of these areas is necessary in order to successfully operate such programs.

In the revised proposal, a credit union examiner would have the ability to independently utilize a credit union's internal desired capital assessment in determining the adequacy of said capital. By requiring credit unions to develop a comprehensive written strategy regarding desired levels of capital, as well as strategies to maintain such levels, and then utilizing such goals and benchmarks in examinations, the NCUA is effectively encouraging credit unions to set lower internal goals and guidelines.

As an example, if a credit union documents that their target capital is 10.00%, it appears inappropriate to penalize that credit union if their actual net worth is landing near 9.50%. In essence, that credit union could potentially be penalized for setting a goal more aggressive than the standard expectations set by the NCUA.

Even though we recognize the risk to the industry, we do not agree with the subjective nature in which the proposed changes to PCA would apply penalties to an institution's RBNW requirements based on perception of management's own internally desired goals. We believe that this additional requirement on an institution's RBNW has the potential to cause more harm than good.

Risk Weight Concerns

After a thorough review of the risk-weights assigned to various items from the balance sheet, we have concern with a couple of the assigned weights. However, we would like to recognize the significant improvement in the revised version of this proposal. The most notable concern is below:

- Mortgage Servicing Rights – the proposed changes would apply a 250% risk weight to mortgage servicing rights. With the current risks posed by holding first mortgages on a credit union's balance sheet, many institutions may be looking to sell such loans to remove potential risk. In the right sale type, the sale of mortgage loans assists an institution's balance sheet by effectively removing a great deal of credit risk, liquidity risk, interest rate risk and market risk. While removing such risk from an institution is a useful risk mitigation tool, most institutions would prefer to retain the servicing on sold mortgage loans. Not only does retained servicing assist the credit union in earning non-interest income in the form of servicing fees, but it also allows the credit union to retain relationships with their members to provide superior service. Properly valued and managed servicing rights pose minimal risk to a credit union, but are risk weighted exceedingly heavy.

Again, we would like to thank the Administration for taking the time to consider our input and concerns, in addition to the significant improvements made to the revised version of the proposal. We understand that an overhaul to Prompt Corrective Action and Risk Based Net Worth is necessary and also understand the degree of difficulty in designing a measure that appropriately measures all necessary risks. If you have any questions regarding this feedback, please do not hesitate to contact me directly.

Sincerely,

Jacob F. Darabos, CPA
VP of Finance / CFO
CASE Credit Union