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DEFENSE CREDIT UNION COUNCIL

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Executive Secretary
Federal Financial Institutions Examination Council
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Delivered electronically via: https://www.regulations.gov

RE: Request for Information Regarding Uniform Financial Institutions Rating System [Docket ID OCC-2026-0562]

Dear Sir or Madam:

On behalf of the Defense Credit Union Council (DCUC),[1] thank you for the opportunity to comment on the Federal Financial Institutions Examination Council's (FFIEC) request for comment on proposed revisions to the Uniform Financial Institutions Rating System (UFIRS), commonly referred to as the CAMELS rating system. DCUC represents credit unions that serve active-duty military, veterans, and their families worldwide.

DCUC supports the FFIEC's proposed revisions because they would better align CAMELS ratings with the factors most relevant to an institution's financial condition, risk profile, and safety and soundness. In particular, DCUC supports the FFIEC's emphasis on material financial risks over process-related issues that do not materially affect an institution's safety and soundness. DCUC also supports greater specificity and transparency regarding the factors used to assign CAMELS ratings. These changes should allow supervisory resources to be directed toward risks that matter most while providing financial institutions with clearer expectations. Below are DCUC's specific comments on the proposed revisions.

Management Component Rating

1. Removal of Special Consideration

DCUC strongly supports the proposal to remove the "special consideration" given to the Management component when determining a composite rating. While effective board and management oversight is essential to safety and soundness, this is equally the case with all CAMELS components and Management is not an outlier that warrants treatment differently from the other CAMELS components. Treating Management differently from the other components

[1] The Defense Credit Union Council represents more than 200 defense-affiliated credit unions and over 40 million members—including active-duty servicemembers, Guard and Reserve personnel, veterans, Department of Defense civilians, and military families.

can result in undue emphasis on process-related issues that may have little bearing on a financial institution's condition or risk profile. Removing this special consideration will promote a more balanced assessment of an institution's overall condition and ensure that material financial risks are appropriately measured in the composite rating.

1. Materiality Threshold for Management Ratings

DCUC supports revising the Management component's evaluation factors to emphasize the most material aspects of risk management so the component more accurately measures an institution's safety and soundness, including removing factors related to "Management depth and succession," "Responsiveness to recommendations from auditors and supervisory authorities," and "Demonstrated willingness to serve the legitimate banking needs of the community."

DCUC also supports establishing a material financial risk threshold for assigning Management ratings of 3 or worse based on risk management weaknesses. Under the proposal, such ratings generally would be assigned when risk management weaknesses result in material financial risk to the institution. Institutions that have unreliable financial or regulatory reporting, have failed to safeguard assets, or are in significant noncompliance with law or regulation may also be assigned a Management component rating of 3 or worse. We agree that these revisions would better measure risks that could impact an institution's safety and soundness. For credit unions serving military and veteran communities, supervisory resources are better directed toward risks that could materially affect an institution's financial condition and its ability to serve its members than toward deficiencies that have little bearing on safety and soundness.

2. Treatment of Specialty Review Findings

DCUC supports the proposed clarification regarding specialty review findings. The proposed changes regarding the influence of specialty review findings also enable more accurate ratings that reflect material financial risks.

3. Emerging Technology Risks – DCUC Recommendations

DCUC recommends that the Management component expressly address emerging technology risks. Financial institutions increasingly rely on cybersecurity infrastructure, artificial intelligence, third-party technology providers, and sophisticated data systems. The evaluation factors should therefore address board and management oversight of cybersecurity, artificial intelligence governance, third-party technology risk, and data governance. Effective oversight of these risks is increasingly important to protecting an institution's financial condition, operations, and safety and soundness, particularly as technology rapidly advances and evolves.

Revisions to Composite Rating Definitions

DCUC supports the proposed revisions to the composite rating definitions to more accurately focus on an institution's financial condition and risk profile with an emphasis on material financial risks. We agree with the revisions to the numerical ratings and believe that clear and transparent thresholds for the ratings will help ensure that ratings of 3 or worse are clearly supported by evidence of weaknesses to the institution's safety and soundness.

Furthermore, not every regulatory violation should have the same impact on a CAMELS rating. The severity, frequency, duration, institutional impact, and relationship to material financial risk should matter. A technical or isolated violation that does not materially affect safety and soundness should not alone result in a significant CAMELS downgrade.

Clarifying Language on Risk Management

DCUC supports the FFIEC's revisions to replace broad language regarding identifying risks with specific component evaluation factors related to risk management. Greater specificity will provide credit unions with clearer expectations regarding the practices relevant to each CAMELS component and enable examiners to assess component ratings more consistently.

Clarifying Evaluation Factors

DCUC supports removing the "but not limited to" language from the CAMELS component descriptions and replacing it with a general paragraph, applicable to all components, which would allow for additional evaluation factors to be considered only if warranted by exceptional circumstances or evolving business practices. Requiring examiners to document the rationale for considering additional factors will provide greater transparency and predictability for credit unions.

Improving Consistency, Structure, and Approach to Rating Definitions

The current framework includes a description of the ratings, 1 through 5, for each CAMELS component, however the descriptions have different language, structure, and level of detail. Greater consistency in terminology and structure will provide clarity and transparency in the examination process, allowing credit unions to better understand supervisory expectations and prepare accordingly. We support changes that allow for consistent terminology and structure for greater clarity and transparency in the examination process. This allows credit unions to understand examination expectations and prepare accordingly. We also support frequent updates to modernize and conform language throughout the framework and to update terminology to reflect current industry standards and policy changes.

DCUC appreciates the FFIEC's efforts to modernize the UFIRS framework and believes the proposed revisions are a positive step toward ensuring that CAMELS ratings more accurately reflect financial condition, risk profile, and safety and soundness. We appreciate the opportunity to provide these comments and remain available as a resource on issues affecting credit unions and the members and communities they serve. Please contact me at Jason.Stverak@dcuc.org with any questions about DCUC's comments.

Sincerely,

Jason Stverak
Chief Advocacy Officer
DCUC