From:	Rick Mullen
To:	_Regulatory Comments
Subject:	Comments on Risk Based Capital Proposed Rule
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Thank you for providing me with the opportunity to comment on the NCUA's proposed Risk-Based Capital rules. While I generally support the concept of risk-based capital requirements, I have concerns over several of the individual risk weights being proposed. I would like to address the one with which I have the most in-depth knowledge – the 250% risk weighting for Mortgage Servicing Rights (MSRs).

As background, my perspective comes from having purchased, sold, and managed MSRs for most of the past 30 years, including managing a portfolio of more than $11 Billion at RBC Bank (USA). MSRs were part of my area of responsibility as a Grade 15 Office Director at the FDIC (RTC). I have been asked to speak on the value and trading of MSRs at several national servicing conferences. Through these experiences, I have gained a great deal of familiarity with this asset and am passionate about its importance to credit unions.

MSRs have only two significant risks associated with them – prepayment risk and operational risk – both of which are relatively easily mitigated. Prepayment risk can be mitigated by maintaining a viable origination pipeline. Operational risk can be mitigated by maintaining a good system of internal controls.

To explain how an origination pipeline hedges the risk of MSR prepayments, consider that the most popular hedge against the interest rate risk inherent in a residential mortgage pipeline is the **sale** of MBS TBAs. One very viable hedge against the prepayment risk inherent in MSRs is the **purchase** of MBS TBAs. Maintaining a viable origination function will serve as an automatic, built-in hedge against the prepayment risk of MSRs. Anytime an institution is experiencing rapid prepayments in its MSR asset, such as during a refinance boom, it should simultaneously be experiencing huge revenue increases in its mortgage origination business that will more than offset any MSR losses from prepayment.

Virtually every credit union that maintains MSRs on its books has a viable origination function to counterbalance the prepayment risk. Therefore, this risk is virtually non-existent.

Additionally, MSRs provide a reliable source of significant fee revenue, and such revenues are generated from fees that are paid by investors, not by members, so for that reason MSRs are a particularly good source of fee revenue.

Perhaps most importantly, this weighting factor would represent a direct contradiction for the Agency. The NCUA has been strongly encouraging credit unions to manage interest rate risk. An important tool in managing interest rate risk is the sale of long-term fixed rate loans into the secondary market. The sale of loans on a servicing-retained basis creates mortgage servicing rights when there is a servicing fee involved. So the 250% risk weighting, if imposed, would put the NCUA in a position of encouraging the creation of MSRs through the sale of long-term fixed rate loans for interest-rate-risk management purposes while at the same time discouraging the sale of those same loans because such sale would create MSRs that would put an undue strain on capital. It would not be good for the industry for the NCUA to contradict itself in this manner.

While I realize that the FDIC assigned a 250% risk premium to MSRs in its risk-based capital requirements, they did not do so because of the risk of the asset itself. The FDIC was addressing a different risk – the risk of too many MSRs on the books of too few servicers. They were specifically trying to deal with the systemic risk to the US economy created by having only four banks owning the servicing rights to 60% of all mortgage loans in the US. The FDIC was strongly discouraging these megaservicers from accumulating any more MSRs. It is important to note that this risk is unique to the

FDIC.

The NCUA should not blindly follow the FDIC on this asset type. They should be encouraging credit unions to hold the servicing rights to its members' loans, not discouraging it. A mortgage loan is often the most significant asset a credit union member has, and can be the cornerstone of his or her relationship with his or her credit union. A credit union should want to ensure that it controls the member experience related to that asset, and should not be discouraged by its regulator from doing so.

For these reasons, I strongly encourage the NCUA to consider setting the risk weighting on MSRs at 50% or less to more accurately reflect the true risk of this asset to credit unions.

Thank you for the opportunity to express my opinion on this matter. Your consideration is appreciated.

Sincerely,

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