Michigan Educational Credit Union

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"Providing quality, comprehensive cost effective financial services"

May 13, 2014

MAY16'14 PM 2:22 BOARD

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

Reference: RIN 3133-AD77

Dear Mr. Poliquin:

Michigan Educational Credit Union is $690 million dollars in assets and serves 48,300 members in Southeast Michigan. The credit union appreciates this opportunity to provide comments on the Proposed Risk Based Capital Rule.

Michigan Educational Credit Union has several concerns regarding the proposed rule.

Its first concern is with Part 702.105 – Individual minimum capital requirements. This section specifically notes that capital requirements, other than what is explicitly noted elsewhere in the rule could be imposed upon a credit union. Further, it provides a number of examples which might call for a higher minimum capital requirement. This section also says that appropriate individual credit union capital cannot be determined solely though the application of a rigid mathematical formula.

Michigan Educational Credit Union agrees that adequate capital cannot be solely determined through the application of a formula. We have two concerns. The proposal as it is written is vague. It allows the exercise of too much subjective and unchecked judgment. There does not appear to be any mechanism for the credit union to appeal or challenge that subjective judgment. Secondarily, the rule as it is written will lead to different conclusions among NCUA examiners. Every Examiner's comments are influenced by their own experiences and understanding of risk. An Examiner not as experienced or knowledgeable in the various areas of risk could mandate a capital requirement higher than a seasoned, knowledgeable and experienced Examiner.

Second, the proposed rule only focuses on the risk on the asset side of the balance sheet. It does not take the structure of the liability side of the balance sheet into account when assigning asset risk weightings. Further the rule does not consider the credit union's program of risk management and mitigation. In the proposal NCUA says states "in practice, it is very difficult to determine the validity of the credit union's mitigation efforts' as its reason for deleting the current rule's section702.108 Risk Mitigation Credit. Michigan Educational Credit Union does not believe the "degree of difficulty" or the amount of required regulatory review are valid reasons for eliminating the Risk Mitigation Credit.

Third, Michigan Educational Credit Union does not understand the rationale for the risk weights assigned to the various asset categories. In the proposed rule, CUSO loans are assigned a 100% risk weight. This assigned weight does not take into account that the loan may be collateralized or the quality of the collateral. At December 31, 2013, Michigan Educational Credit Union had a $10,345,407.02 loaned to its wholly-owned CUSO. The value of the collateral supporting that loan was

$13,872,951.76. Further the collateral consists of warehoused mortgage loans and loans secured by documented mortgage servicing rights. Accordingly, Michigan Educational Credit Union believes a 100% risk weight for the CUSO loan is inappropriate.

It is in the best interests of the NCUA, the National Credit Union Share Insurance Fund and the nation's credit unions to have well capitalized credit union system. Michigan Educational Credit Union does not believe this proposal, as it is written, will achieve the intended objective.

Michigan Educational Credit Union suggests that the NCUA convene a group of Federal and State Regulatory authorities and credit union management to begin working on the issues of capital adequacy. Basel III, the capital accord for banks, could serve as a guideline for the new credit union capital requirements.

Sincerely,

Mark M Pugliese

Mark M. Pugliese
Chief Financial Officer