MICHIGAN STATE UNIVERSITY
FEDERAL CREDIT UNION
Building Dreams Together

May 22, 2014

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

Dear Mr. Poliquin,

I am writing on behalf of Michigan State University Federal Credit Union (MSUFCU) in response to the proposed amendments to the prompt corrective action rules and addition of risk based capital requirements. While MSUFCU remains well-capitalized under the proposed calculation, we have questions and concerns about the calculation proposed. These concerns are detailed below.

1. Risk Weighting
   - Deposits at the Federal Reserve should be included in Risk Weight Category 1 (0%). The Federal Reserve has been designated as an approved source for emergency liquidity by the NCUA, therefore should have the same rating as guaranteed agency securities.
   - Evaluating all investment securities based on the weighted average life ignores any reduction in credit risk provided by the implicit government guarantee of agency securities. The proposed rule also requires significantly more capital for credit unions holding mortgage-backed securities and other longer duration securities in the investment portfolio than the banking risk based capital requirements.
   - Cash or certificates of deposit that are fully insured by the FDIC or NCUSIF are subject to 20% risk weighting. The risk weighting should apply to uninsured balances only which is consistent with the banking risk based capital requirements.
   - Consumer loan risk weights consider the delinquency status of the portfolio, but do not consider the value of any security pledged to offset these losses. The loss rate on unsecured consumer loans is considerably higher than secured consumer loans such as new and used auto loans and the risk weighting should reflect this difference.

2. Inconsistency with other federal banking regulatory agencies
   - One of the reasons for creating this calculation cited by the NCUA was consistency with regulatory risk-based capital measures used by other federal banking regulatory agencies; however, as noted above, the risk ratings in the NCUA calculation require significantly higher capital than the FDIC approved calculation.
   - The timeline for implementing the proposed risk-based capital requirement is much shorter for credit unions than other financial institutions. While the proposal indicates that the requirements will be effective 12 to 18 months after the final rule is published, banks have had several years to plan and prepare for the increased capital requirement.

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3. Overlapping regulations
   - The risk-based capital ratio is intended to evaluate credit unions with assets greater than $50 Million on interest rate risk, concentration risk, credit risk, liquidity risk, operational risk and market risk. Current regulation requires credit unions to create policies and limits in these areas in addition to the proposed ratio calculation. These policies and risk tolerance limits are approved by the board of directors of each institution and evaluated during regulatory examinations.
   - Credit Unions are subject to regulations requiring policies and procedures to monitor, measure and mitigate interest rate risk in the balance sheet. This calculation does not include the risk mitigation benefits provided by the liabilities on the balance sheet.
   - Credit risk is evaluated at each institution and recorded in the Allowance for Loan and Lease Losses (ALLL). The proposed calculation limits the ALLL to 1.25% of risk weighted assets. The Financial Accounting Standards Board (FASB) has proposed significant changes to the accounting for receivable credit losses. It is expected that the proposed FASB change could significantly increase many financial institution's Allowance for Loan Losses. If FASB's proposed rule is finalized and the 1.25% limit remains in the NCUA's risk based capital calculation, credit unions would be required to hold significantly higher capital when accounting rules are requiring significant and more than sufficient increases in reserves.

4. Individual Minimum Capital Ratio (IMCR)
   - The provision allowing examiners to subjectively apply higher capital requirements to a credit union is of serious concern.
   - Significant time and effort has been expended to create a risk based capital ratio calculation with the intent to objectively measure the risks present in credit unions' balance sheets. This possibility of an IMCR impedes credit union management's ability to make strategic plans and decisions about the loan and investment portfolios without the risk of a subjective increase in the risk based capital requirement.

We recognize the need to evaluate and update the current risk based net worth calculation to address risks identified during the most recent financial crisis however there are changes that should be made to meet the stated goals of this proposal. I appreciate the opportunity to provide comment and voice MSUFCU's concerns about the proposed risk based capital calculation.

Sincerely,

Sara Dolan

Sara Dolan
Chief Financial Officer

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