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April 23, 2015

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

Subject: Comments on NCUA's RBC2 Proposal

Dear Mr. Poliquin:

On behalf of Motorola Employees Credit Union (MECU), we appreciate the opportunity to provide constructive feedback to the National Credit Union Administration (NCUA) Board's request for comments on NCUA's second proposed risk-based capital rule (RBC2). We commend the NCUA's efforts to revise 2014's original proposal (RBC1). RBC2 represents an improvement over last year's proposal. However, there are certain aspects within the proposal that remain fundamentally flawed that would likely put the industry, and MECU, at a competitive disadvantage. Ultimately our members will be negatively affected.

Following, we address several aspects that we believe require further adjustment.

Capital Adequacy:

Even though the NCUA has eliminated the provision in RBC1 requiring individual minimum capital requirements (IMCR), RBC2 suggests that capital adequacy could still enable examiners to continually demand additional capital when all other requirements of the rule are met. Credit unions could still be subjected to higher capital requirements than what are specifically required by the regulation. Credit union's own internal capital strategies to balance their risks and establishing its own risk tolerances would be subject to examiner review. Capital adequacy could potentially subject credit unions to higher capital requirements than what are specifically required by the regulation.

Risk Weights:

Generally, we are pleased with the changes made to risk weights in RBC2, although we are not sure why credit union risk weightings should be different than banks. Specifically, the risk weights for higher concentrations of mortgage loans and business loans have been reduced, but the risk weights for CUSO investments (150%) and mortgage servicing assets (250%) remain high. Both allow credit unions to diversify their investment portfolio and balance sheet makeup.

> CUSO Investments - Applying a 250% risk weight to an investment in a CUSO may result in the unintended consequence of restricting credit union investments in CUSOs due to the punitive risk weighting. Additionally, many CUSOs are highly successful and owners of those CUSOs will be penalized for growing investments in profitable CUSO entities. At a minimum, there should be a lower tiered risk weighting depending on success and longevity of a CUSO.

Mortgage Servicing Rights - We feel that the risk weighting for mortgage servicing rights is too high because the interest rate risk benefit for rising rates from mortgage servicing rights is not given any credit. When interest rates increase, so does the value of mortgage servicing rights. Interest rate risk on the balance sheet is therefore mitigated. Regardless of the accounting treatment (lower of cost or market vs. market value), the interest rate risk modeling should recognize the change in market value for the mortgage servicing rights. The risk weight should be lowered from 250% to the current 75%. MECU currently has $170 million in serviced loans that provide revenue. Our IRR would increase rather significantly if those loans remained on our balance sheet instead. To risk weight servicing rights so dramatically, our risk-based capital requirement would essentially counter-balance the IRR reduction.

Interest Rate Risk (IRR):

NCUA has indicated that it intends to issue a new proposal on interest rate risk that would apply a minimum quantitative measure of interest rate risk to all covered credit unions using some common measurement framework. This would be in addition to the Interest Rate Risk Policy and Program rule adopted in 2012. MECU opposes any proposal that attempts to create a standardized IRR measurement that would be uniformly applied to all credit unions. NCUA already has an interest rate risk rule in place that provides adequate protection. There is more than one way to evaluate interest rate risk, and selecting just one in a fixed rule would unnecessarily restrain credit union risk management. If NCUA feels that additional interest rate risk steps are needed, they should be addressed in the regulatory, examination, and supervision process.

Supplemental Capital:

Neither RBC1 nor RBC2 permits the use of supplemental capital for risk-based capital purposes, beyond the existing ability of low-income designated credit unions to count supplemental capital as net worth. MECU supports the inclusion of supplemental capital in the numerator for credit unions. It is our understanding that NCUA had the authority to at least allow supplemental capital to be included for RBC. MECU applauds NCUA Board Member McWatters' position that the revised rule must incorporate supplemental capital as a necessary element.

In summary, MECU commends the NCUA for listening to credit unions' concerns in 2014 following the RBC1 proposal. Great strides have been made with RBC2. We believe that yet a 3rd proposal is necessary to address the items described above. Thank you for the opportunity to comment on the proposed rule and for considering our views. If you have any questions, please feel free to contact me.

Best Regards,

Larry J. Rosin
Executive Vice President / Chief Financial Officer