MICHIGAN STATE UNIVERSITY® FEDERAL CREDIT UNION
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April 24, 2015

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 (RBC2). While MSUFCU appreciates the NCUA's consideration of comments and concerns communicated about the original proposal, we have remaining questions and concerns about the revised calculation proposed. These concerns are detailed below.

1. Risk Weighting
   - 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. Although the new rule addressed the concerns related to share secured loans by reducing the risk weight to 20%, other secured loans remain at 75%. This risk weight is extremely high if you compare actual losses on secured consumer loans to unsecured consumer loans; MSUFCU's historical losses on secured consumer loans is only 10% of unsecured: the historical loss ratio on secured consumer loans is 0.20% compared to 2.00% for unsecured consumer loans. This makes the risk weight for secured at 75% significantly higher than actual experience.
   - The risk weights do not consider any additional loan characteristics which may mitigate risk of loss, and therefore risks to capital. These include loan to value, credit score, and origination channel.

2. Overlapping regulations
   - The new risk-based capital ratio is intended to evaluate credit unions with assets greater than $100 Million on 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 if total assets exceed $250 Million. These policies and risk tolerance limits are approved by the board of directors of each institution and evaluated during regulatory examinations. The conflicting limits create inconsistencies between regulations and expectations of institutions.

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3. Capital Adequacy Plans
   - Although the IMCR component of the original proposal has been removed, the requirement of a written capital adequacy plan provides examiners with the ability to subjectively apply higher capital requirements based on exam results at the examiner's discretion regardless of ratio results. This remains 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 a supervisory adjustment to the required capital ratio 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 appreciate the NCUA's attention to comments received on the original proposal, and 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 additional 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 second proposed risk based capital calculation.

Sincerely,

Sara Dolan

Sara Dolan
Chief Financial Officer