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California Credit Union League
Serving Credit Unions in California and Nevada

SEP27'05 PM 3:07 BOARD

September 27, 2005

Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314

Re: Comments on Proposed Rule Part 741

Dear Ms. Rupp:

On behalf of the California and Nevada Credit Union Leagues, I appreciate the opportunity to comment on the National Credit Union Administration's (NCUA) proposed revisions to Part 741. Together, the California and Nevada Leagues represent the largest state trade association for credit unions in the United States, serving 500 member credit unions in California and Nevada with 8.8 million members.

Proposed Part 741.8 – Purchase of assets and assumption of liabilities

The Leagues support the proposed change to Part 741.8, which clarifies that transactions involving the sale and purchase of loans or other assets between federally-insured credit unions do not require NCUA approval. We agree with the NCUA that transfers between federally-insured credit unions do not materially increase risk to the NCUSIF. Further, we agree that these types of transfers will not negatively affect the safety and soundness of federally-insured credit unions, given the many other regulations governing these transfers and NCUA enforcement of these regulations.

Request for comments on Part 741.3 and extension of CUSO rules to FISCUs

NCUA is also soliciting comments on two other areas of significance to federally-insured, state-chartered credit unions (FISCUs):

- Whether to remove the requirement under §741.3(a)(2) for FISCUs to establish special reserves for nonconforming investments and, in place of the requirement, require FISCUs' nonconforming investments to be investment grade.
- Whether to extend Parts 712.3 and 712.4 of NCUA's CUSO rule – which address the limits on the structure, accounting, audits, NCUA access, and corporate separateness – to FISCUs.

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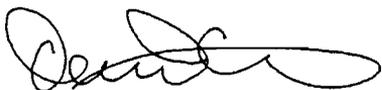
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The Leagues strongly object to both proposals, which serve to preempt longstanding state authority in these areas and weaken the dual chartering system under the unsupported claim of "safety and soundness" issues. The proposals lack statistics and examples that demonstrate the need to make these changes. It is unclear what has occurred to lead NCUA to conclude that state statutory and regulatory authority is no longer sufficient in these areas. NCUA's proposal regarding nonconforming investments cites conflict with GAAP. Simply conforming to GAAP is in itself not a compelling justification for the change. Given that in many cases the use of reserves to offset the non-conforming investment may even be more conservative than GAAP, the use of regulatory accepted accounting principles (RAAP) should be allowed to continue.

Regarding the extension of NCUA's CUSO rules to FISCUs, I'm sure most state regulators would agree that corporate separation between a CUSO and its credit union owners is good corporate governance. However, the proposed regulation would preempt state law with respect to CUSO regulation despite the absence of any material risk to the NCUSIF. At this stage, we believe NCUA's concerns would be better addressed by working with state regulators to increase state emphasis on CUSO/credit union separateness issues (that is, if a specific problem has been identified in credit unions).

In closing, the California and Nevada Credit Union Leagues thank the NCUA for the opportunity to comment on these proposed rule changes. We understand that NCUA's proposal regarding Part 741.3 and the CUSO rules is merely an initial request for comments and not a proposed rule. Our comments on these issues are being submitted with the hope that NCUA will reconsider its approach, or at least address these issues with state regulators before taking further action.

Sincerely,



David L. Chatfield
President/CEO
California and Nevada Credit Union Leagues