

1/8/09

Ms. Mary Rupp  
Secretary of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, Virginia 22314-3428

**Re: Proposed Regulation 12 CFR Part 704**

Dear Ms. Rupp:

I understand the NCUA Board has drafted a significant proposed regulation, which is directed at the nation's corporate credit unions. But ultimately, this proposed regulation will affect my credit union.

I believe there are some major limitations in the proposed rule that cause me a number of concerns, mostly over liquidity and investment returns. If not amended, these parts of the proposed rule will force my credit union into the undesirable position of seeking alternative, possibly far more costly, and certainly more unreliable, providers instead of a corporate credit union I and other credit unions would own.

Here are my primary concerns:

***704.2 Further definition of "available to cover losses"***

The language "to the extent that any contributed capital funds are used to cover losses, the corporate credit union must not restore or replenish the affected capital accounts under any circumstances" makes absolutely no sense.

The losses on the corporate books are due to OTTI losses which are an estimate of future loss unless sold or underlying securities actually mature. The corporate and the NPCUs should fully impair their MCA and PCA using contra accounts. Future retained earnings should be allowed to reduce that impairment over time. Increased retained earnings will not be possible if the corporates are only allowed to hold short term assets and liabilities, which generate a much reduced net interest margin.

***704.8 (c) Penalty for early withdrawals on corporate certificates***

My credit union has benefited from enhanced yields on my excess funds placed with my corporate (WesCorp), but I do not see why I am not able to obtain a premium on a certificate redemption if I need liquidity. If this proposed change stays in, I will have to seriously consider putting my longer-term investable funds elsewhere in liquid instruments that do not penalize early redemptions. All credit unions will be forced into the same choice, which will effectively

mean the end of corporate certificates as a competitive investing option. That will not be good for my credit union, WesCorp, or the system as a whole. This proposal should be removed.

Here's a live example. My credit union currently has three CDs at WesCorp that could currently be redeemed on 1/06/2010 at the following premium due to recent declines in market rates:

- 1.84% \$5MM, 1yr left on maturity, redemption price 101.48 or \$74,000 gain
- 1.16% \$5MM, 2 mos left on maturity, redemption price 100.10 or \$5,000 gain
- 0.73% \$10MM, 2 mos left on maturity, redemption price 100.03 or \$3,000

Allowing for early redemption is a "win-win". WesCorp could lower their cost of funds because their current offering rate for a 1 year and 2 month certificate are only 0.58% and 0.28%, respectively. My credit union could increase interest margin by turning a 1.84% yield into a 5.6% yield (avg yield on loans that are growing each month). If the concern is one of corporate liquidity, the corporate rules should ensure that corporates have adequate access to borrow if necessary for such early redemption situations. If the concern is a "run" on the corporates, assume every NPCU asked for early redemption at the same time. WESCORP could convert their entire CD portfolio into an overnight borrowing rate which would be less than their current overall COF! This proposal makes no sense and should be removed.

**704.8 (d), (e) & (f) NEV sensitivity analyses**

I have seen analyses that show that the proposed limitations placed upon a corporate through various NEV tests do not allow the corporate to generate sufficient interest margin to build retained earnings to meet your proposed capital requirements. If enacted as drafted, this proposal will inevitably lead to some combination of increased fees being charged to me and forced expense reductions that will adversely impact the level of service and support that my credit union needs. The rule should be revised to allow for WesCorp to make sufficient income from the balance sheet to grow and invest in innovation for the benefit of all its member credit unions, while exercising an acceptable level of credit and interest rate risk.

Too much emphasis is placed on NEV analysis (which is a liquidation valuation analysis which doesn't take into consideration new business at new rates). These limitations eliminate the ability for the corporate to use the upward sloping yield curve to its advantage.

**704.8 (h) Weighted average asset life**

I look to WesCorp as a liquidity provider for both short- and long-term needs. I understand that the limitations placed on asset maturities or average life limitations may severely impact my ability to obtain term liquidity if I need it. Again, that means I will have to look elsewhere. I am unwilling to go to a bank for expensive funding – but that may be my only choice.

Our credit union currently has a strong demand for 1<sup>st</sup> mortgage loans to our members. We need low cost long term borrowings to offset that interest rate risk. If corporates are severely restricted on the weighted average life of their assets, they cannot offer this interest rate risk protection. A corporate could earn at least 300bps more on a long-term loan to a NPCU than they can on a short-term treasury, providing the ability to grow their capital ratio. A corporate would have less risk in loans to NPCUs than they would with some of the securities manufactured by Wall Street.

**704.6 (c) & (d) Concentration limits**

Under the current proposals for concentration limits, WesCorp will be severely challenged to invest short-term liquidity at reasonable rates. This will have the effect of reducing the overnight rates my credit union receives from WesCorp – something I simply cannot afford. I respectfully urge a number of revisions here: Please change the definition of deposits in 704.6 (d) to include Federal Funds, or include Federal Funds transactions in the exemption from sector concentration limits. Also, please change 704.6 (c) to allow a larger single obligor limit of 200% of capital on money market transactions with a term of 90-days or less. An alternative solution might be to specifically allow a single obligor limit of 200% of capital for Federal Funds transactions sold to other depository institutions.

**704.8 (k) Overall limit on business generated from individual credit unions**

I do understand why a limit ought to be placed on the aggregate investment in WesCorp that comes from my credit union. That’s common sense. However, the current limit of 10% may force a corporate into short-term borrowings with less favorable terms regarding price, maturity and collateral. It may also be damaging to the corporate’s earnings: It would force corporates to maintain larger cash balances, which would likely be detrimental to earnings. I am concerned that this proposal may limit WesCorp’s ability to provide my credit union with reasonably priced short-term liquidity.

I ask you to consider allowing borrowings with a maturity of 30 days or less, from either the Federal Reserve Bank, a Federal Home Loan Bank, a Repurchase Agreement counterpart or a Federal Funds counterpart, in excess of 10% of the corporate credit union’s moving daily average net assets, by eliminating the “or other entity” part of the proposed regulation. Alternatively, consider allowing a higher borrowing limit of as much as 20% of the corporate’s moving daily average net assets from these entities.

**704.11 Corporate Credit Union Service Organizations**

I urgently request some clearer definition as to what will be permissible in the final rule. I am concerned that, in its current wording, the proposed rule will make it extremely difficult for WesCorp to find qualified CUSO partners with whom to offer credit unions the competitive products and services they need. I can certainly understand that if I were a third-party provider of a necessary service in which WesCorp wanted to be a minority partner, I would not allow the NCUA free access to my books, records, software and operations. Rather, I would force WesCorp to leave the partnership.

Furthermore, as the products my members demand continue to evolve, the expense of producing those products becomes prohibitive. Many natural person credit unions are creating CUSOs to help produce innovative products at a minimum cost. Often we rely on WesCorp to join that CUSO, because they bring considerable expertise that is not available to most credit unions. Any changes, such as the full access to operations, which may prohibit WesCorp from joining such CUSOs, will obviously be a detriment to our future abilities. These changes should be limited to a more practical and realistic status where, for example, WesCorp has the controlling interest in the CUSO.

The above areas comprise my major concerns with your proposed rule, and I hope that my comment on this is sufficient to prompt you to reconsider these proposals in the ways I have indicated.

It is very clear to me that you have put an incalculable amount of time, thought and consideration into a proposal that you intend to strengthen the corporate network and be of lasting value to all credit unions.

I want to see it work the right way, and I hope that my comments, along with those of my fellow credit union leaders, will assist you in making that happen.

Sincerely,

Bill Before  
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VP of Finance/CFO  
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*Spokane Teachers  
Credit Union*