DOCO
Regional Federal Credit Union

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March 9, 2009

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:

Over the recent weeks we have taken the opportunity to gain an understanding of the newly proposed corporate credit union regulation 12 CFR Part 704. Our corporate credit union, Georgia Central, is our primary financial institution and an integral part of our credit union's operations. Therefore, we understand the impact this regulation would have on the operations of both corporates and their member credit unions. Unfortunately, the overall effect of this regulation appears to be unfavorable for credit unions. Furthermore, the proposed regulation in its current form could lead to the demise of the corporate system and severely cripple the cooperative network that has been the basis of a successful credit union system for many years. Although we recognize the need for regulatory reform, we respectfully request you consider our concerns as outlined in the following paragraphs.

We believe several provisions, as currently written, are overly restrictive and would ultimately prohibit our corporate from meeting liquidity needs and providing competitive products. For credit unions, losing access to competitive products would lead to significantly greater costs.

Specifically, rule 12 CFR 704.8 (c), which imposes a penalty for early withdrawals on corporate certificates, would make the corporate certificate less attractive. Most credit unions would look elsewhere for a competitive product and the corporate certificate would eventually cease to be an investment option for credit unions. The effect this would have on corporate income, potential credit union income, and the corporate's ability to extend credit does not seem to be an equitable tradeoff for the risk the rule intends to remove. The corporates already have the authority to limit or prohibit redemptions as needed; therefore, we request this provision be removed.

In addition, the weighted average asset life limitations set forth in rule 12 CFR 704.8(h) would threaten our credit union's ability to obtain affordable term liquidity when needed. Credit unions would then be forced to look to other providers such as the Federal Home Loan Bank (FHLB) or bank competitors for the service. Services obtained from bank competitors would be far more costly and the availability of liquidity would be far less certain. Acquiring the services of bank competitors would likely require a contribution of capital, which would not be advantageous for the credit union system.

The concentration and sector limits on investments in rule 12 CFR 704.6 (c) & (d) would also impact our corporate's ability to provide value to our credit union. This regulation severely limits our corporate's ability to access the federal market, and it would render our corporate ineffective at investing short-term liquidity at reasonable rates. Ultimately, our credit union's overnight rates would be reduced. This would have a direct and immediate impact on our credit union and its members. We agree with the recommendation of our corporate, Georgia Central, that the regulation be amended to specifically exclude federal funds from the sector limits. In addition to the amendment to exclusions, our corporate has also requested the obligors be increased to a sufficient level given the number of corporate counterparts bidding for federal funds.

Another important matter of concern is the fact that several provisions have the potential of threatening the viability of the corporate system.

Analyses prepared by our corporate show that the various NEV tests required by rule 12 CFR 704.8 (d),(e) and (f) would not allow corporates to generate sufficient interest margin to build retained earnings needed to meet NCUA's proposed capital requirements. Under this scenario, corporates may be forced to increase fees, reduce expenditures and significantly modify the services they provide. Credit unions may be forced to seek services from outside competitors at a higher cost and a lower return.

The provision as stated in rule 12 CFR 704.8(k) restricts a corporate from accepting investments, shares, loans and capital from any one member in excess of 10% of the average assets. This provision would severely challenge the corporate's ability to provide reasonably priced short-term liquidity. To compensate, the corporate would seek short-term borrowings with less favorable terms or reserve larger cash balances, which would ultimately impact the corporate's earnings. Again, credit unions would be forced to seek investment options outside the corporate system, further draining the system of liquidity. Furthermore, since credit unions are allowed to invest unlimited funds in a bank as long as proper due diligence is conducted, we do not see why a credit union cannot invest unlimited funds in a corporate as long as the same due diligence is conducted. We request consideration be given to alternative recommendations that do not diminish the value of corporates to credit unions.

The provision setting term limits for directors and the provision limiting indemnity payments would severely impede corporates' ability to recruit and retain qualified executives and board members.

Within a few years of the proposed regulations becoming effective, corporates would likely lose a majority of their experienced board members as a result of rule 12 CFR 704.14. Additionally, if one of those terminating member's exceeded the 6 year limit, the credit union represented by the terminating member would be prohibited from representation on the board. Moreover, the individuals appointed to replace those members would be allowed to serve only 6 years, a term that is shorter than the average business cycle. These restrictions only increase the risk to corporates and credit unions by potentially diminishing the quality of corporate management. The process for supplying credit unions with qualified directors has been demonstrated by the quality of the directors, who have previously served in the corporate system. We request this rule be removed.

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Rule 12 CFR 704.20, which sets forth stringent limits on indemnification payments, would basically expose corporate directors and managers to unlimited personal and professional liability risk. This would make the task of attracting and retaining qualified individuals even more difficult and almost impossible. We request these limits be revised.

We believe the regulation's restriction of services to be provided by Corporate Credit Union Service Organizations (CUSOs) has the potential of undermining the cooperative process by which credit unions address common challenges and opportunities.

Many credit unions benefit from the use of CUSOs by providing services they could not otherwise afford or do not otherwise have the expertise to provide. We fear the restriction of activities the CUSO can provide as set forth in rule 12 CFR 704.11 would unnecessarily hinder the use of CUSOs and impair the credit union system's ability to obtain and provide the services they need. Rule 12 CFR 704.2, which requires the offset of capital invested in CUSOs, would also negate the financial benefit of owning a CUSO. We request this restriction be eliminated.

Several provisions appear to replace corporate governance with regulatory authority.

Rule 12 CFR 704.4 as written would basically give the NCUA unlimited power to stipulate "remedial actions towards undercapitalized, significantly undercapitalized and critically undercapitalized corporate credit unions." This rule would also allow the NCUA to lower a corporate's PCA category based on criteria other than capital-to-assets ratio. Several other provisions including the provision to limit the term of directors, the provision to limit the activities of CUSOs, and the provision to limit indemnity payments seem excessive with regard to mitigating risk and effectively takes the place of corporates' elected officials' governing authority. We recognize the need for increased regulatory guidance but believe this guidance should be maintained within risk guidelines and coupled with the corporates' elected officials' authority to make governance decisions. We request these provisions be removed.

We appreciate the efforts of the NCUA in providing the structure from which a sound basis for reform can be built. However, modification is needed to ensure provisions within the regulation do not restrict corporates from meeting the liquidity needs of their member credit unions, providing competitive products, and attracting qualified executives and board members. It is critically important that consideration be given to preserving corporate authority, as well as developing a viable corporate business plan - one that encourages stability while enhancing the cooperative network that is unique to the credit union system.

Sincere regards,

Barry O. Heape
President and CEO