OSU Federal
Your Community Credit Union™

January 21, 2010

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

RE: Proposed Regulation 12 CFR Part 704

Dear Ms. Rupp:

We appreciate the significance of the task that NCUA has taken on in rewriting the Corporate Regulation. The challenges which the entire credit union industry has gone through over the last year will hopefully never be repeated. The combination of increased risk on the balance sheet combined with an extremely unusual economic environment culminated in these challenges. The goal by NCUA to create a rule which would eliminate the potential of this situation happening again is an honorable outcome, but it appears the result would be so restrictive that it is unlikely corporate credit unions would be able to survive.

Our greatest concern lies with the multi-layered approach to limiting risk on the balance sheet, thereby reducing the ability to rebuild capital as well as the ability to provide competitively priced products. The layering of obligator and sector limits with extremely conservative credit spread widening NEV virtually eliminates earning potential for the corporates. If corporates can not remain competitive, natural person credit unions will seek alternative providers.

The areas of greatest concern include:

704.20 Definitions
NCUA has required the extinguishment of natural person credit union capital within the corporate system based solely on projected losses. From a variety of research, it appears that GAAP does not require such action; only the recording of the loss. It would appear that a move to extinguish capital at the point that actual cash flow losses are realized would be the more appropriate stance for a safe and sound industry. The proposal frames the definition of member capital in a way that justifies and codifies NCUA's position on extinguishment.

> We would ask NCUA to reconsider how they have written the definitions associated with capital within the corporate system. Allow corporates to maintain a retained earnings deficit rather than deplete member capital until actual losses are incurred.

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243

704.8 (h) Overall Limit on Single Investor
We understand the intent of this section of the rule to limit the amount of business generated from a single credit union. It appears that this section would also limit the amount that a corporate could borrow, even for less than 30 days, from either the Federal Reserve, Federal Home Loan Bank, Repurchase Agreement counterparty or a Fed Funds Counterparty. This would reduce a corporate's access to short term funding, reducing their ability to manage liquidity needs and their competitiveness.

> We ask that you consider eliminating the "or other entity" part of the proposed regulation or provide an exemption for these entities listed above. An alternative may be to increase the limit of business generated from a single investor to 20% of daily average net assets.

704.6 Single Obligator Limits
We understand the intent to establish a limit on too high of a concentration with one obligator. We see two concerns with the combination of obligator limits and concentration limits. Some investment sectors do not have a large set of obligators available. Corporates would not be able to take advantage of well performing sectors since there are not enough obligators. Alternatively, corporates may end up investing in lower credit quality securities to meet the obligator diversification limits rather than invest a higher amount with a high quality obligator. Secondly, limits are very restrictive for overnight investments. There may be a limited number of participants in Fed Funds at any given time, and this restriction would hinder the efficiency of corporate overnight investment processes.

> We ask that you consider expanding the obligator limit for Fed Fund and overnight investments. For example single obligator limit of 200% of capital for Fed Funds transactions and money market transactions with maturities less than 90 days.

704.6 (c) & (d) Concentration Limits
We agree with the need to add concentration limits by sectors for corporate investment portfolios. It appears that Fed Fund transactions were not mentioned within the sectors and would fall under the other category of 100% of capital or 5% of assets.

> We do not think that additional sub-sector limits would be appropriate.
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> We would suggest lowering the concentration limit for corporate debt to 500% of capital or 25% of assets.
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> We would also suggest lowering the concentration limit for subordinated securities to 200% of capital or 10% of assets.
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> We would also ask that you consider including Fed Funds with the exemption for deposits in other banks. This would allow corporates the flexibility to invest overnight efficiently.

704.8 (h) Two Year Weighted Average Asset Life
A two year weighted average asset life for corporate credit unions would appear to minimize risk. But, it also limits their ability to earn a spread between the income on investments and the funding

source. It would eliminate the ability to access lower risk, asset back investments such as agency mortgage back securities as well. Of greatest concern to us, is that it would eliminate corporates from being a provider of longer term borrowing for natural person credit unions. This is one of the core services corporates have provided natural person credit unions as part of their mission. It is one of the services we value the most from our corporates. Without that option, it is unlikely we will participate in corporates in the future.

> We would ask that you reconsider the two year weighted average asset life, or alternatively provide an extension or exemption for government guaranteed and agency securities as well as loans to member credit unions.

704.8 (e) Cash Flow Mismatch Sensitivity Analysis - Spread Widening NEV
Conceptually, testing for cash flow mismatch is a reasonable tool in understanding the risk associated with a balance sheet. In most analysis, the use of realistic assumptions or movements in assumptions is recommended. This would provide a reasonable view of potential outcomes. The spread widening assumption of 300 basis points appears to be completely outside of historic norms for the majority of asset types. In addition, the limits on results suggested in the rule will make it extremely difficult for corporates to grow earnings or meet their capital requirements.

> We would suggest that the test should be amended to be more realistic. The spread widening should be for a shock of 100 basis points and allow 35% NEV volatility. Exemptions or realistic spread widening assumptions should be used for Government and Agency securities that more appropriately reflect the risk those investments bring to a corporate's balance sheet. We would suggest that derivatives should be a part of the NEV analysis.

704.8 (f) Cash Flow Mismatch Sensitivity Analysis with 50% Slowdown in Prepayment Speeds
In any NEV analysis, realistic prepayment systems are modeled and utilized. The incorporation of additional prepayment slowdown would overstate the risk in the balance sheet and further constrain a corporate's ability to earn a spread between interest income and expense. In fact, the less ability corporates have to earn some spread on interest rates or cash flow mismatch, the more likely corporates will take on credit risk instead.

> We would suggest removal of this section of the proposal since the test is based on such unrealistic credit spread widening and prepayment assumptions that the results would be of questionable value.

704.8 (c) Penalty for Early Withdrawal on Corporate Certificates
Throughout the time period of 1990 to 2004, OSU Federal Credit Union rarely used corporate certificates as a part of the investment portfolio because they just were not liquid. As corporates began allowing credit unions to sell back the certificates based on market rates, a greater level of parity between investing in agency bonds and with corporates evolved. These certificates became a viable option for the investment portfolio here at OSU Federal Credit Union.

Rather than improving the stability of liabilities on corporate balance sheets as suggested in the proposed rule, we believe it would reduce the attractiveness of holding term deposits with corporates all together. In order to retain funding from member credit unions, corporates will be forced to pay a larger margin over agency bonds to compensate depositors for giving up liquidity. Corporates' earnings will be impacted negatively. If corporates are unable to increase the dividend payout on the certificates, natural person credit unions will reduce their investment in corporate certificates. This could increase corporates' dependence on borrowings to support their balance sheet.

We would recommend retaining the current rule on early withdrawal penalty.

704.9 Borrowing Limits
The proposed rule limits borrowing by corporate credit unions to less than 30 day maturities. We feel this limits the flexibility of corporates to be able to meet the needs of member credit unions. Often member credit unions deposit and borrowing needs are cyclical. The industry experiences cycles of limited cash to deposit in corporates yet the need to access sources of borrowings remains or increases. By limiting the maturity of borrowings by corporates, this reduces their ability to efficiently lend to member credit unions. It also limits the flexibility in managing their funding sources as member deposits fluctuate.

We would ask that you consider the ability of corporate credit unions to hold borrowings up to two years in length in order to be able to continue to provide member credit unions with longer term borrowing.

704.11 Corporate Credit Union Service Organizations
We found the rule for Corporate Credit Union Services Organizations to be vague, providing insufficient definition of "allowable offerings." We rely on a variety of CUSOs which corporates have supported through ownership stakes. It would be unfortunate for the credit union industry for the corporates to be forced to divest of their holdings.

NCUA should provide more definition on what services should be allowable, or at least provide information regarding the current CUSO relationships that exist.

We appreciate the time and thought put into the development of this proposal and the goal to enhance the security and soundness of the corporate network.

We hope that our comments, as well as other credit unions', assist you in creating a rule which will allow corporates to remain a strong, safe provider of services to credit unions well into the future.

Sincerely,

Bonnie Humphrey-Anderson

Bonnie Humphrey-Anderson
Executive Vice President/Chief Financial Officer