Comments on NCUA Corporate Credit Union Restructure

1) Capital requirements- I am in favor of a tiered risk based capital structure, however the capital required by NPCU members should be a portion of their investment not a percentage of their assets. If an NPCU uses the corporate for settlement than their capital requirement should be a percentage of their daily average adjusted semi annually.

2) I agree with limiting concentration risk but that needs to be determined by the examiner based on several factors. A corporate should be regulated just like Natural Person Credit Unions. If their investment portfolio is loaded with Treasury Notes, I don't believe that should be treated the same as option arms. The severe limitation on investing by a corporate credit union is a knee jerk reaction to a total collapse of the regulators, board and management duties to maintain a safe and sound institution. The current proposal will eliminate the corporate structure as we know it. I would like to see the credit union system stay intact and be self regulating. I also believe we can return to a system where we can safely invest without the need to take our members money to the banks.

3) The recommendations of the joint task force put together by CUNA and NAFCU will eliminate the opportunity for a corporate credit union to do any investing. Limited to 90 days, a corporate will have no opportunity to grow retained earnings or net worth and will have to rely totally on the NPCU for capital. There will no longer be long term (1 yr+) loans for credit unions looking to grow and meet member lending demands. I see liquidity in the credit union system reduced severely as funds go outside the system for investments returns. Our business plan calls for a 3 year ladder with excess liquidity invested in 5 year steps. Wescorp will no longer be able to offer term products but will be reduced to a CUSO who places investments with banks and GSE, just like the hundreds who call us weekly for our business. I am recommending allowing investments up to 5 year. This must include adjusting the proposed shock tests to allow some level of risk. We all face risk with each loan we make, each check we cash and each member we allow into our field of membership. The key is to make calculated conservative and limited risk based on the overall health of the organization. Leave the regulating to the regulators not the administration. Hire and train qualified examiners who can properly identify risk.

4) Cash flow mismatch is an issue all credit unions deal with. This is not unique to a corporate. It needs to be managed prudently and again is a part of sound business model. This needs to be managed and examined, not regulated. It should be obvious to examiners when the mismatch becomes excessive. I believe it can be regulated to a point but to say no overnight funds can be invested longer than 60 or 90 days removes the opportunity to increase revenue and return the corporate to adequate capitalization. I am not in favor of matching 60% of overnight funds with 5 year investments but you leave them no opportunity to earn a decent spread or to pay competitive rates.

5) I agree there should be sector limits for concentration risk and would assume NCUA was monitoring these before this economic mess occurred. I think they should be the lesser of 10% or 100% of capital but each credit union should be viewed independently. It makes no sense to lump all institutions into the same category. Regulate them with people not overly restricting rules.

6) Liquidity (or cash) is king. The investments that got us in trouble were based on leverage. Risk is compounded by leverage and it's the leverage portion of the investment that needs to be regulated.

7) I would like to see legacy investments isolated with full transparent accounting of actual losses and a mechanism to return any gains to the natural person credit unions who incurred the write down of their capital.

These are historic times. The housing crisis was foreseeable and the concentration of mezzanine, alt-a and sub-prime CMOs were there in plain sight. Poor judgment and lax supervision were the cause of WesCorps losses. Will this happen again? Probably not in our lifetime. I am sure Wall Street will be able to come up with another type of exotic investment opportunity that will bypass investing regulations, be highly leveraged and full of risk that performs very well and will catch the eye of investors. The key is to maintain a balanced approach to this type of investment. To place over 30% of assets in this new widget would be ridiculous but it happened and the regulators allowed it. Now there is a movement to abolish any type of long term investment so it won't happen again. That's like doing away with cars so there are no more drunk drivers on the road. These corporate credit unions can be quite complex and I venture to guess, well above the expertise of the majority of NPCU CEOs and management staff. I can only ask that you meet with the leadership of the corporate credit unions and negotiate common ground that will allow us to maintain a credit union system that has safety and soundness as its driving force, that allows NPCUs to invest in and rely on for services. Critical to this system is our ability to stand alone and strong. To be able to fulfill the needs of the smallest as well as the largest of credit unions.

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