MID-ATLANTIC CORPORATE
YOUR FRIEND IN THE BUSINESS®
1201 Fulling Mill Road • Middletown, PA 17057 • www.midatlanticcorp.org
(800) 622-7494 toll free • (717) 985-3300 local • (717) 985-3435 fax

January 25, 2010

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

Dear Ms. Rupp,

Thank you for the opportunity to provide perspective and comment on the NCUA's proposed Regulation Part 704 concerning the role of the Corporate Credit Union Network and its structure. While we appreciate NCUA's need to take action to address areas within Part 704 dealing with corporate capital levels and investment authorities, Mid-Atlantic does feel that there are sections of the proposed rule that are too restrictive, and will inhibit the ability of corporates to perform the functions for which they were created.

Over-limiting corporates does not protect credit unions or the share insurance fund. Instead, it shifts more risk to them. Restricting corporates to the point that we are uncompetitive in the market will drive credit unions to non-movement providers. As credit unions move outside the movement to find investments or service providers, the burden on NCUA will be to ensure that the providers credit unions choose do not represent an exposure to the very risks the NCUA is trying to eliminate within the corporate network.

As a conservatively run corporate, Mid-Atlantic Corporate did not engage in many of the practices that this new regulation is trying to curtail. That was – and is - the nature of our culture and the business choices we made as an independent institution, not as a result of the structure of the corporate network or what may have been allowable under the regulations at the time. Mid-Atlantic is confident that we will be able to be successful under many of the new requirements. However, some of the tighter restrictions will have a profound impact on us, and therefore our members.

**Section 704.3 Corporate Capital**

Currently under the proposed regulation, Membership Capital Accounts (MCA) that are not converted into other forms of capital cannot be included in the capital calculation during their three-year notice period, thus there is no regulatory value in these funds. Mid-Atlantic suggests that the proposed regulation be modified to allow any MCA balances that are placed on notice, or not otherwise converted to either Perpetual Contributed Capital (PCC) or Nonperpetual Capital Account (NCA), to count as capital at the same two-year declining scale as defined in the present regulation.

Without this change, MCA balances that are not converted to either PCC or NCA will no longer count as capital, and will immediately need to be removed from the capital calculation. This immediate shift downward of the capital ratio could negatively impact any affected corporates ability to promote a viable business plan to remaining or prospective natural person credit union members, and would in some cases place contractual arrangements for vendor services or credit facilities at risk for suspension or termination.

*Section 704.2 Definitions – Adjusted total capital*
If a credit union decides to hold capital with a corporate, no restrictions should be placed on how much of that is used in the corporate's capital calculation, as the money is still available as a cushion against a potential loss. However, if this capital will not be included in the calculation, the corporate should be able to return the excess capital contributions.

In the case of PCC, the entire amount should always count towards core capital, as opposed to the proposed calculation that, after ten years a corporate must deduct any amount of PCC from core capital that causes PCC to exceed retained earnings.

MID-ATLANTIC CORPORATE
YOUR FRIEND IN THE BUSINESS®
1201 Fulling Mill Road • Middletown, PA 17057 • www.midatlanticcorp.org
(800) 622-7494 toll free • (717) 985-3300 local • (717) 985-3435 fax

Mid-Atlantic realizes and agrees with the goal of NCUA to incorporate a retained earnings component of the capital calculation, so as to create a buffer between any possible future loss and the impact those losses would have on a corporate's credit union members. What we do not agree with is the exclusion of PCC that exceeds retained earnings as part of the core capital calculation. As written, the excess PCC will still remain available to absorb losses if incurred. However, by excluding the PCC from the calculation, the proposed regulation would create a disincentive for the corporate to build PCC beyond the retained earnings component of the ratio and could instead result in effectively stunting growth within the membership base.

Growing and diversifying the membership base helps level the cyclical shifts in deposit balances and mitigates the impact of any single member's investment or service activity on the other members. Furthermore, growth of a corporate's membership base helps the entire membership by adding scale, specifically in its price negotiation ability with outside vendors. The ability of a corporate to negotiate better pricing on behalf of its members makes the entire credit union industry stronger and better able to meet the demands of the natural person memberships.

*Section 704.3(a) (iii) (3) Retained Earnings Ratio*
Mid-Atlantic also has strong concerns that the ability of any corporate to obtain 45 basis points in retained earnings in three years is not a realistic expectation if the current interest rate environment were to persist. Mid-Atlantic feels that while the snap shot sample investment modeling is relevant now, the modeling, relying on market data as of October 2009, does not realistically portray the average spreads available on the sample investments in a non-dislocated "normal" market. In Mid-Atlantic's reproduction of the NCUA sample modeling utilizing average investment spreads from 2000 to 2006, the sample portfolio would not produce the 21 basis points annual income, but would actually show a negative return of 9 basis points. The unintended consequence of striving for this benchmark in the current rate environment is that it would force the corporate network to push out to the maximum allowable risk tolerances in order to meet the basis point level required.

Example:

**NCUA pages 99-104**

| Sector | Portfolio Percentage | Total Weighted Average Life | LIBOR/EDSF Spread |
|---|---|---|---|
| **Investments** | | | |
| FFELP Student Loan ABS | 20% | 1.000 | 25 |
| Private Student Loan ABS | 10% | 0.500 | 200 |
| Auto ABS | 20% | 0.600 | 25 |
| Credit Card ABS | 10% | 1.000 | 30 |
| Other ABS | 10% | 0.300 | 10 |
| Overnight Investments | 30% | 0.003 | 0 |
| **Total** | **100%** | **0.501** | **34** |

| Pro Forma Income Using January - June 2009 System Averages | |
|---|---|
| Net Interest Income | 0.34% |
| Other Income | 0.17% |
| Total Operating Income | 0.51% |
| Total Operating Expenses | 0.30% |
| Net Income from Operations | **0.21%** |

**Mid-Atlantic Assumptions Based on January 2000-July 2007 Spreads***

| Sector | Portfolio Percentage | Total Weighted Average Life | LIBOR/EDSF Spread |
|---|---|---|---|
| **Investments** | | | |
| FFELP Student Loan ABS | 20% | 1.000 | 0 |
| Private Student Loan ABS | 10% | 0.500 | 6 |
| Auto ABS | 20% | 0.600 | 6 |
| Credit Card ABS | 10% | 1.000 | 5 |
| Other ABS | 10% | 0.300 | 16 |
| Overnight Investments | 30% | 0.003 | 0 |
| **Total** | **100%** | **0.501** | **3.90625** |

| Pro Forma Income Using January - June 2009 System Averages | |
|---|---|
| Net Interest Income | 0.04% |
| Other Income | 0.17% |
| Total Operating Income | 0.21% |
| Total Operating Expenses | 0.30% |
| Net Income from Operations | **-0.09%** |

*Source: Barclay's Capital Securitization Research, Bloomberg

Additionally, it appears that the modeling from NCUA does not take into account the differing cost structures of each corporate. While many corporate credit unions operate using very low cost structures, the products and services those corporates offer to their membership are often very limited or are the result of a straight pass-through to US Central. In the case of Mid-Atlantic, we have developed our own set of sophisticated and self-sufficient products and services that meet the needs of our membership. Mid-Atlantic's business model mitigates reliance on one service provider, which in-turn mitigates our vendor risk. The cost of providing these services is higher than the "pass-through" model, but in our opinion provides a more robust, and less provider-dependent, service offering.

*Section 704.3(b) (ii) (6) Sale of PCC*
Mid-Atlantic agrees that corporate credit union members should be allowed to sell membership capital to another member in the corporate credit union's field of membership. However, we believe the transaction should be subject to the corporate credit union's approval. By allowing the corporates to become part of any potential member-to-member capital transaction, the corporate is in a position to protect the interest of both parties. The corporate is neutral in the transaction because the impact on the corporate balance sheet and capital position would not be affected by any such sales. Additionally, excluding a corporate from any sale transaction could place the corporate in an untenable position if a dispute arises between the selling and purchasing credit unions. In this case, even simple concerns such as the payment of dividends on capital could act to drag the corporate into a transaction dispute, of which it had no prior knowledge.

*Section 704.3 (d) 3 Standards for determination of appropriate minimum capital requirements*
Mid-Atlantic Corporate is highly concerned with the statement that "levels for an individual corporate cannot be determined solely through mathematical formula, but must be based in part on subjective judgment grounded in agency experience." This section allows for a subjective judgment to be used in determining a corporate's capital status regardless of whether the corporate meets the capital standards for designation at a certain capital level as defined in the regulation. Under such a subjective standard, there are no measurable benchmarks to which a corporate could manage their activities in order to ensure compliance.

NCUA has noted that they are moving toward the adoption of a capital framework similar to that used by the FDIC in the banking industry, with clearly defined supervisory actions indexed to the capital level of the individual institution. It is unclear why this framework as defined is insufficient.

We are concerned that the regulation as written does not identify the methods by which NCUA will ensure consistency in its approach to a subjective measurement. Capital standards and levels could then be based on a whim of an individual director/examiner of OCCU at any time, rather than on the FDIC model NCUA is purporting to follow.

**Section 704.4 – Part 747 Prompt Corrective Action Corporate Structure**

As stated above in Section 704.3, Mid-Atlantic Corporate is highly concerned with the level of discretionary supervisory powers that are implied within the proposed regulation. There are no correlating benchmarks or definitions to give structure for compliance under corrective actions that result from an examiner's subjective opinions. We are concerned that the level of discretionary authority is such that there is little guarantee of consistent application as it relates to what constitutes a "well" or "adequately" capitalized corporate.

*Section 704.4 (k) (1) Remedial Actions towards undercapitalized, significantly undercapitalized and critically undercapitalized corporate credit unions*
Dividend payments on capital accounts should only be restricted for "significantly" or "critically" undercapitalized corporate credit unions. The loss of the ability to pay dividends on member capital investments in a corporate that is already weakened would be more likely to destabilize that corporate by causing its membership to consider pulling capital away from the corporate at a time when retaining capital is vital for providing stability.

**Section 704.5 Investments**

The proposed regulation was clearly written with a focus on constraining the activities of those corporate credit unions with the higher Part IV investment powers. Those corporate credit unions with higher investment powers are also the corporate credit unions that have caused the losses within the corporate system.

Mid-Atlantic Corporate operates at the Base Plus level of investment authority. We do not have higher investment powers by choice, and by strategic design the Mid-Atlantic investment function has always been very conservative. The Base Plus level allowed Mid-Atlantic enough flexibility to manage our investments so that we remained liquid (average term 3 years and under) to fulfill our role as a liquidity provider, were able to perform well in earnings, and were able to pay our members competitive rates. Mid-Atlantic Corporate is a perfect example that investment philosophy and culture, not just regulatory authority, are key to successful portfolio management.

Mid-Atlantic Corporate understands and agrees with NCUA's actions to remove or modify higher investment powers (Parts I through IV). However, by going further to restrict even the authorities available under the Base Plus powers, the proposed regulation will have the unintended consequence of limiting corporates' capacity to remain competitive while building back retained earnings.

The structure changes and testing requirements under the proposed regulation will make compliance difficult because of the limited allowable investments left to corporate credit unions under these restrictions. It will effectively require diversification of investments and overnight liquidity holdings to such a point, that costs to monitor depository relationships and investments will increase unnecessarily because the corporate will need to establish and cultivate so many depository relationships in order to stay within the proposed single obligor concentration limits. Mid-Atlantic's comments on the specific sections pertaining to these concerns are outlined below.

Mid-Atlantic Corporate believes and recommends that a simpler solution to many of the concerns surrounding corporate investments would be to simply eliminate the higher investment powers (Parts I through IV) while retaining the Base Plus authority.

**Section 704.6 Credit Risk Management**

*Section 704.6 (c) Issuer Concentration Limits*
The single obligor concentration limit within the proposed regulation is set at 25% of capital or $5 million. This limit is overly restrictive and could actually place corporates at higher risk by overly constraining balances that can be placed in depository institutions.

It would seem consistent with one of the primary roles corporate credit unions fill within the overall credit union movement that the ability to place liquid deposits in many different depository institutions will enhance responsiveness to liquidity needs of natural person credit unions. If implemented as currently written, mid-size and larger corporate credit unions will not be able to find enough depository institutions that meet all the criteria established in the regulation. This fact would cause many corporates to place money in very short maturity Treasury and Agency securities, which will offer little in yield and increase interest rate risk. Although the interest rate risk increase will be slight because of the very short maturity dates of these investments, changes in liquidity demands by corporate members will necessitate selling before maturity at slight gains and losses. In rising rate environments, a corporate could suffer losses unnecessarily.

In the case of cash deposits in other financial institutions, a more appropriate limit would be 100% of capital. These financial institution relationships are already heavily regulated by other federal regulatory bodies. Within the existing and the proposed regulation for corporate credit unions, a framework is already established that mandates only highly rated and financially sound financial institutions will be available to corporates to place money.

With respect to implementing the single obligor concentration limits on the term investment portfolio maintained by the corporate, the diversification this limit will force on investment managers will, in most cases, be a positive change. Mid-Atlantic's concern with this issue comes from the fact that if certain markets normally available to a corporate for investments come under stress, strict enforcement of the single obligor limits could essentially cause a corporate to "fill up" with the alternative investments and be forced to invest in an obligor that technically meets the requirement of the regulation, but is not an optimal choice for the corporate.

Mid-Atlantic Corporate suggests altering the 25% single obligor limitation as it relates to investments from a "limit" to a "guideline". This change will allow corporates to make the best possible investment choices, yet still maintains NCUA's ability to monitor, and if deemed necessary, force a change to the investments of a corporate if it appears there could be excessive risk building due to concentration in any single issuer.

**Section 704.8 Asset Liability Management**

*Section 704.8 (d) Interest Rate Sensitivity Analysis*
Mid-Atlantic agrees that standardizing the investment testing and monitoring criteria is a good idea. However, combining the requirement for testing/limitations for investment sectoring/obligor concentration limits and spread testing represent a layered regulatory framework that is overly restrictive.

As described in the summary of the proposed regulation, the NCUA has reviewed the regulatory testing and monitoring tools utilized by other banking regulators. However, NCUA has not recognized in their evaluation that the regulations and standards from the other banking regulators do not differentiate between a retail customer institution and a "bankers bank" institution. Furthermore, by picking testing and monitoring tools from various existing non-credit union regulations, there is a loss of continuity to the overall objective. In the case of this proposed regulation, the tests that are intended to force corporate credit unions to measure and monitor risk have been layered on top of each other in such a way that they could be in conflict. Each test is prescribed as in a vacuum and ignores the reality of a dynamic investment marketplace.

ALM required testing and investment restrictions should be equal to that of corresponding bank regulations, as opposed to having stricter regulations. For example, the 300 basis point shock requirement for Interest Rate Risk (IRR) and spread widening test goes beyond parity with existing bank regulations, which require only a 200 basis point shock IRR test and no spread widening testing.

*704.8 (f) Cash Flow Mismatch Sensitivity Analysis*
Mortgage-backed investment tests as proposed in the regulation are overly simplistic, and have the potential to be critically flawed. The proposed regulation does not spell out from what point the 50% slow down must be taken. Since all modeling of mortgage backed securities (MBS) will anticipate slowing prepayment speeds in a rising rate environment, the 50% slow down included in the proposed regulation would represent a "double whammy" of modeled slowing if taken from the shocked prepayment speed. Conversely, even if the 50% modeled slowing is supposed to come from the base case scenario, a 50% uniform change in prepayment speed ignores the securities coupon rate and thus the rate of the underlying mortgages. As an example, a newer issue MBS with a coupon of 4.5% and weighted average mortgage rates of the underlying borrowings of approximately 5.0% will experience a drastically different change in prepayments if rates increase 300 basis points, than the change in prepayments a seasoned 7.0% MBS with underlying mortgage borrowings of 7.5% would experience. To rectify this situation, Mid-Atlantic is advocating that the spread widening test be omitted from any testing of MBS (both residential and commercial).

*Section 704.8 (h) Weighted Average Asset Life*
Weighted average life restriction is unnecessary given the rigid NEV test requirements. Placing a weighted average life restriction on corporates, given the controls and testing for interest rate risk, could put all corporate credit unions at risk in times when the investment yield curve is flat or inverted. If investments are not permitted to have some component that is significantly longer than the prescribed restriction, flat or inverted yield curve environments will not allow corporates to anticipate market changes and make appropriate longer-term investments that will help "bridge" periods whereby short-term investments will be similarly flat to the corporates cost of funds.

*Section 704.8 (i) Effective Spread Durations*
Credit spread widening test methodology is prescribed as a blanket with no consideration for the credit quality of the investment being tested. The adjustments to the accounting treatment of marketable securities away from market valuation to a modeled expected credit loss basis, makes this test of limited value. Changes in the spreads securities experience from the Treasury curve only present a potential risk of loss if the corporate is forced to sell the position before the spread returns to the earlier level or the security matures. If the corporate can demonstrate sufficient liquidity to hold securities until maturity, and the credit quality of the investments does not constitute a risk of loss, no spread widening test should be necessary for safety and soundness testing.

1201 Fulling Mill Road • Middletown, PA 17057 • www.midatlanticcorp.org
(800) 622-7494 toll free • (717) 985-3300 local • (717) 985-3435 fax

That said, if after the unprecedented market dislocation of the recent past, the NCUA feels it cannot ignore the potential risk of spread widening, Mid-Atlantic asks that the credit spread test be adjusted to apply a graduated spread widening test, whereby high quality assets are subject to less spread widening and lower quality investments widen out according to a defined step widening schedule indexed to the currently prescribed testing limit at the lowest allowable credit limit.

## Section 704.9 Liquidity Management

### *Section 704.9 (b) Borrowing Limits*

Liquidity borrowing restrictions are appropriate to control leveraged investing, but detrimental for corporate credit unions from a safety and soundness perspective as it regards liquidity management. Mid-Atlantic agrees that a portion of the current problems with the conserved corporate credit unions was caused by their use of leverage to artificially expand their balance sheets and invest those leveraged funds in investments. We agree that leverage based investing should be excluded by the regulation. However, the proposed regulation also places limitations on borrowings for liquidity purposes.

With the restrictive interest rate risk limitation imposed on corporates in other sections of the regulation, placing a limitation of 30 days on liquidity borrowings could be dangerous to the health and liquidity of the corporate, if a repeat of the recent credit dislocation would reoccur. During the 2008/2009 credit crisis, even the most actively traded and widely acknowledged top tier credit companies, like General Electric, were unable to secure borrowings.

Mid-Atlantic suggests that the 30-day limitation on liquidity borrowing be removed. By restricting corporates to 30 days for liquidity purposes, the Agency could actually increase the liquidity risk to corporates if they are forced to rely on short-term borrowings, and by market forces out of their control, cannot continue those borrowings. As acknowledged by the entire credit union industry, the primary purpose for which corporates were created was to provide liquidity. Enforcement of the 30-day limitation places restrictions on corporates that are counter to their reason for existing and prevents them from fulfilling their key function.

## Section 704.11 Corporate Credit Union Service Organizations

### *Section 704.11 (e) Permissible Activities*

Under the proposed rule, there is no phase in period for obtaining permission for existing corporate CUSOs to continue operations. The NCUA could have difficulty thoroughly reviewing all requests between the publishing date of the final rule and its effective date. As the rule reads today, a corporate may be required to suspend the activities of their CUSOs until NCUA permission is received.

As an example under the rules as currently written, Mid-Atlantic Corporate's payment services CUSO, MY CU® Services, may have to suspend their services. This would have an immediate and severe negative impact on over 700 natural person credit unions and their individual members located in all 50 states, the District of Columbia, and the U.S. Territory of Guam, who are using our electronic bill payment service daily.

NCUA should create parity between Parts 704 and 712 by including the same list of permissible CUSOs in both regulations. This will greatly reduce the number of corporate CUSOs that need to request permission to continue operations. There should also be a 180-day phase in period for this part of the rule to allow the NCUA time to consider all requests for corporate CUSO approvals. Additionally, there should be a 12-month period for a corporate to divest itself of a CUSO that is deemed impermissible. This will allow a corporate time to extricate itself from a CUSO.

Mid-Atlantic Corporate agrees that the current limits on corporate CUSO loans and investments are sufficient. Mid-Atlantic does not feel the limits need to be reduced at this time. As the Board stated in the proposed rule, it is likely corporate CUSO activities will increase. Given this likelihood, it will also lead to greater investment and loan activity, thus making the current limits necessary.

Mid-Atlantic supports the NCUA for its intent to more closely monitor the activities of corporate CUSOs to ensure there is no increase to systemic risk created from corporate CUSO activities. Mid-Atlantic agrees with the NCUA that services and activities currently taking place within the corporate today will likely migrate to corporate CUSOs in the future. Mid-Atlantic does not believe moving services to a corporate CUSO automatically increases systemic risk. In fact, it is our opinion that moving services into a corporate CUSO will reduce risk by separating the function from financial risk already in existence within the corporate. By separating the service into a separate entity, it will be easier to more thoroughly identify, monitor, and control the risk it creates.

## Section 704.14 Board Representation

*Section 704.14 (a) (2) Qualifications of a Director*

Mid-Atlantic Corporate feels that limiting potential Board candidates to those holding the titles of CEO, CFO, and COO is not an effective measure for identifying the suitability of the candidate. Today there are some corporates that require all Board members to be the CEO of a credit union in order to be eligible to serve. This requirement did not help those corporates avoid the financial problems that they are currently facing. Additionally, the regulation makes no provision for credit unions that use titles such as Manager or Treasurer for their most senior officers.

Limiting eligible candidates to a “check list” of titles could allow a CEO of one or two years experience to be deemed more acceptable than a Manager or Treasurer with 20 plus years of financial experience. This seems counter to the intent of the regulation, which is to ensure qualified Board candidates.

Instead we recommend that the corporate’s nominating committee should establish qualifications for corporate credit union board members. Candidates should be required to have a relationship with the corporate based on a minimum usage of the services offered and a personal résumé that displays experience in related areas. If there is a volunteer of a member credit union who has the background and experience to provide value to a corporate credit union, they should not be excluded from sitting on the Board just because they don’t have a specific title.

As to the issue of ongoing Board training, yearly training requirements are already in place for areas of operations and investments of the corporate. NCUA examiners already review these efforts, which are current requirements of the existing regulation under the Base Plus level. These training requirements should be continued based on a proportionate risk profile of each corporate credit union.

*Section 704.14 (a) (3) Term Limits*

Mid-Atlantic Corporate recommends a 12-year term limit instead of just 6 years. A long tenured and stable Board is important as Boards are built around the corporate’s culture, values, and principles. It takes time for Board members to thoroughly understand a corporate’s operations. Having too short of a term-limit weakens the Board members’ ability to effectively govern. High turn around and insufficient time to become acclimated with the corporate’s operations can lead to less stable governance, and greater pressure on corporate management to be constantly shifting priorities based on a Board member’s desire to accomplish things quickly during their term. Mid-Atlantic Corporate has a history of long-serving and consistent Board leadership. The benefits of this have been proven by our Corporate’s maintenance of our conservative investment philosophy and over 30 years of successfully serving our members.

We do agree with the provision that Board members should be restricted from being on two different corporate credit union Boards. Each member should not be allowed to have more than one representative on a corporate credit union’s Board of Directors.

*Section 704.14 (a) (9) Representation by Natural Person Credit Unions*

Mid-Atlantic Corporate strongly agrees that all Board members should be representatives from the natural person credit union owners of that institution.

**Section 704.19 Disclosure of Executive and Director Compensation**

As member-owners, credit unions have a financial interest in how the corporate is compensating senior executive officers. Therefore, increased transparency of senior executive officer compensation would be beneficial to members.

When releasing senior executive officer compensation to credit unions, it will be important to include the methodology behind the compensation structure. For example, Mid-Atlantic uses a validated system that employs blended salary data for organizations similar in size, industry and location. Our system ensures that we have a well-founded structure for pricing our positions, maintaining internal pay equity within the organization, and ensuring external competitiveness in the labor market where we compete for talent. These are crucial steps towards retaining a motivated, reliable, tenured staff that provides the service our members have come to expect and deserve. The ability of corporates to recruit, recognize and retain talented, committed senior executive officers is important. So, corporates should have reasonable flexibility in formulating senior executive compensation arrangements to ensure a stable and competent senior leadership team.

Corporates should be allowed to choose the format for disclosing executive and director compensation that they consider most appropriate. The new regulation should identify the categories of compensation that must be used, so that corporates are reporting the information in a consistent manner. The following categories should be included: base salary, bonus, incentives, other compensation, deferred compensation and nontaxable benefits. The corporate should ascribe a dollar value to each component of compensation identified.

Mid-Atlantic agrees that executive compensation arrangements, with respect to mergers involving corporates should be transparent. A material increase in compensation for any senior executive officer or director must be included in merger plan documents submitted to NCUA, and disclosed to the membership (of federally chartered corporate credit unions) prior to members voting on the merger. This disclosure should include merger-related compensation extended to the officers and directors of both the continuing credit union and the merging credit union.

**Section 704.20 Limitations on Golden Parachutes and Indemnification Payments**

Mid-Atlantic supports the proposed restrictions on golden parachute payments to IAP (Institution-Affiliated Parties) when the corporate making the payment is troubled or has become insolvent or undercapitalized. These types of payments are clearly inappropriate in instances where an IAP has any level of responsibility for the condition of the troubled corporate.

Mid-Atlantic also supports prohibiting indemnification payments by a corporate to an IAP relating to any liability or legal expense as outlined in Paragraph 704.20(c) and 704.20(d).

Mid-Atlantic believes the limited circumstances in which golden parachute payments are permissible as outlined in Paragraph 704.20(d) are reasonable. It also agrees that in certain circumstances indemnification payments to an IAP by a corporate, as addressed in Paragraph 704.20(e), are appropriate.

Mid-Atlantic appreciates that NCUA's proposals on executive compensation and prohibition of golden parachutes and indemnification arrangements differ from the requirements applied to entities receiving TARP assistance and agrees with NCUA that adoption of the Treasury approach for all corporate credit unions is not needed at this time. Mid-Atlantic also supports that the revisions to Sections 704.19 and 704.20 are applicable to corporates and not NPCUs at this time.

**Final Comments**

Corporate credit unions are a critical component of the credit union movement. We play a unique supportive role in helping many credit unions to survive, compete, and thrive in a highly competitive marketplace. This function is vital to the survival of many credit unions within our movement. Mid-Atlantic Corporate is supportive of NCUA's efforts to improve Regulation Part 704, but as we identified above, we are extremely concerned that in an effort to make that improvement NCUA has

MID-ATLANTIC CORPORATE
YOUR FRIEND IN THE BUSINESS®
1201 Fulling Mill Road • Middletown, PA 17057 • www.midatlanticcorp.org
(800) 622-7494 toll free • (717) 985-3300 local • (717) 985-3435 fax

incorporated changes that will instead impede corporates from fulfilling their vital role of helping credit unions compete and survive to serve their memberships.

The proposed regulation seems to have mirrored some of the other regulatory agencies governing rules, by embracing the Basel 1 standard, which other financial regulators regard as uniform capital standards, yet made the regulation very unrealistic and restrictive when developing the management and modeling requirements.

In trying to protect the safety and soundness of the industry, this regulation provides little, if any, flexibility in helping the corporates to achieve their required capital goals, which are needed to achieve that safety and soundness. There is no way to regulate all risk out of the corporate network without that risk then being assumed by natural person credit unions as they are forced to look outside of the network for services.

The modeling as outlined is understandably designed to address the actions of the corporates that caused losses to the movement. However for those corporates, like Mid-Atlantic, that did not engage in those practices, it adds very little to benefit or improve upon our structure in ways that will help our members. In fact, in the ways outlined above, it may hurt our members. For corporates such as Mid-Atlantic that adhered to Safety, Liquidity and Yield, in that order, the proposed changes to the regulation will not improve our ability to serve our members, rather they will inhibit Mid-Atlantic from performing the functions for which we were created, and in turn, restrict our members' access to credit union service solutions they need to remain competitive themselves.

Our strength as a movement has been to work cooperatively for the benefit of the whole. We need a regulation that allows us a framework to continue to support the success of a strong credit union movement.

Sincerely,

Jay R. Murray

Jay R. Murray
President/CEO