

February 1, 2010

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

Dear Ms. Rupp,

Thank you for allowing the credit union industry the opportunity to comment on the proposed corporate credit union regulation. First, I would like to take a moment to reflect upon the credit union philosophy and the trust that credit unions have had the fortune of earning from individuals for almost a hundred years. The idea of "people helping people" should not simply be a tagline. This should be the mantra that we in the credit union industry should defend and support. It is our duty to carry forward the trust and respect that was built into this industry, the trust that made credit unions strong and viable financial institutions. Credit unions have withstood greater challenges, and did so with the idea of preservation of the industry.

I would like to take a moment to reflect upon each proposed regulation individually and the potential impact not only to the natural-person, but ultimately to all credit union members and the credit union community.

- **Proposed regulations 704.3(c) Perpetual Contributed Capital.** The proposed regulation eliminates the prohibition of conditioning membership and services on a credit union's purchase of permanent capital. This could potentially require a natural-person credit union to be forced to invest into a corporate credit union that may not be best qualified to manage the members' funds. It is this concern that compels me to encourage the prohibition against conditioning membership/services on the purchase of permanent capital to remain in the regulation. Perhaps an option would be to allow members a twelve-month window to exercise an exit strategy of its services with the requiring corporate. We should not allow these credit unions to be impacted by the potential loss of access to a payment system.
- **704.3(c)(3) Perpetual Contributed Capital Call Feature.** The proposed regulation would require an unnecessary prior approval from NCUA for a corporate to exercise the call feature for perpetual capital. It is my opinion that this decision should remain with the issuing corporate. These proposed regulations would ultimately allow the federal government unnecessary additional control of the corporate credit union system.
- **704.3(d)(4)(v) Increased Individual Capital Requirement , 704.3(e)(3) Disallowing Capital from Inclusion in Ratios, 704.4(d)(3) Lowering the Capital Category, 704.4(d)(3)(ii) Lowering the Capital Category based on Ratings, 704.4(d)(4) Lowering the Capital Category for Good Cause.** These proposed regulations allow the Director of the Office of Corporate Credit Unions (OCCU) an unnecessary amount of authority and power. Specifically the proposed

704(d)(4)(v) appears to limit the power of the corporate and increase the power of the Director of the Office of Corporate Credit Unions (OCCU), allowing OCCU the power to increase the capital requirements for individual corporate credit unions. It further restricts corporate by allowing no appeals process. The proposed 704.3(e)(3) provides authority to the Director of OCCU to decide if capital accounts be discounted and not be included in the capital ratios. No NCUA employee should be granted the power to decide if the capital account will not be included in the governing capital ratios if the capital account meets the requirements contained in the regulation. No Director of OCCU should be provided the power to unilaterally change the capital category of a corporate credit union, as proposed in 704.4(d)(3), 704.4(d)(3)(ii), and 704.4(d)(4). This dangerous placement of authority could certainly lead to potential abuse.

**704.4(e)(5) Submission of a Capital Plan.** This provision would allow the OCCU the power to subject a corporate credit union to the restrictions reserved for significantly undercapitalized corporate. The power of the OCCU should be limited and specific.

**704.4(k)(1) Payment of Dividends.** This proposed regulation would limit the ability of a corporate credit union that has been deemed undercapitalized from paying dividends on capital accounts. These limitations should be reserved for those corporate credit unions that are significantly or critically undercapitalized.

**704.4(k)(2)(v) Powers over Undercapitalized Corporates.** This proposed regulation would provide NCUA power for any corporate deemed undercapitalized. Many decisions that would be made by the elected boards of corporate credit unions would be given to NCUA. Should we allow NCUA the power to lower individual capital categories, the Director of the OCCU the power to fire any employee and/or remove any board at existing corporate credit unions?

**704.4(k)(6)(II)(C) Charter or Bylaws for State Chartered Corporates.** This proposed regulation would allow NCUA the power to preclude a bylaw change for state chartered corporates. Should NCUA be allowed to cast aside the powers now reserved for state regulatory agencies?

**704.8(e). Average life mismatch modeling.** This proposed regulation would force corporate credit unions to invest in short-term securities and reduce their position with government-backed bonds. This action would force corporate credit unions to invest in short-term securities WITH credit risk instead of government-backed bonds with limited risk. Perhaps a better option would be to require average life mismatch modeling on securities with credit risk weighting of 20% or less.

**704.8(h) Two-year average life.** Many of the appropriate securities for corporate credit unions have a weighted average life in excess of two years. Securities such as SBA and FFELP student loan securities which provide the best option for excess liquidity because they provide virtually no credit risk, low liquidity risk, and no interest rate risk. However, they have weighted average life in excess of two years. This proposed regulation will actually increase credit risk.

**704.8(k) Deposit Concentrations.** This proposed regulation would limit funds from any one source to no greater than ten percent of a corporate's assets this would ultimately force funds out of the credit union system. It would further penalize those corporate's that acted in a prudent manner with their member's funds,

and deny natural-person credit unions the ability to invest in institutions they have concluded are safe and sound financial institutions. A more reasonable solution to meet the objective is the deposits from one source be limited to the greater of ten percent of a corporate's assets or one hundred percent of a corporate's assets that carry a risk weighting of 20 percent or less. This would ensure that deposit concentrations are invested in high quality, liquid assets.

- **707.4 Prompt Corrective Action** – Corporate's should be required to disclose their capital category. The proposed regulation would hide pertinent information concerning financial strength of corporates from members/owners.
- **Appellate Process** – Appeals processes have been addressed in the proposed regulations. However, based upon past experience it would seem less than prudent to allow NCUA staff such powers and expect that they would be held in check simply by the appellate process.

I recently had the opportunity to attend the NCUA Town Hall Meeting. I certainly appreciated the opportunity to hear the NCUA's view on the background of these proposed regulations, the proposed regulations, and the comments provided by many credit unions. I was pleased to hear the same message from all credit unions that attended – "we rely on corporate credit unions to provide those products/services that we as individual credit unions do not have the money, expertise, or time to administer". While I do appreciate the insight NCUA provided concerning all proposed regulations, I left the meeting more convinced than ever that these regulations, in their current proposed state, will not provide the natural-person credit unions or corporate credit unions the "silver bullet". It became clear to me that these proposals would provide unnecessary amounts of power to the Director of OCCU and in some degree to NCUA staff. The board of directors of our corporate credit union system, as in the credit union system, should be provided the ability to do their job as it relates to their corporate and not be micromanaged by NCUA staff. Our state regulatory agencies should be allowed to retain power without being cast aside by NCUA. Ultimately, these proposed regulations in their current form would reduce liquidity in the credit union system and increase credit risk. I implore you all to reassess the current proposed regulation and focus on what is better for the credit union industry not simply the insurance fund.

Sincerely,

Elisha Murphy