



Denver Fire Department Federal Credit Union

Serving Professional Firefighters and their families since 1938

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February 4, 2010

Delivered via email: regcomments@ncua.gov

Ms. Mary Rupp
Secretary of the Board
National Credit Union Association
1775 Duke St
Alexandria, Virginia 22314-3428

Re – Proposed Regulation 12CFR Part 704

Dear Ms. Rupp,

Denver Fire Department Federal Credit Union is 110+ million in assets and serves only Firefighters and their families in Colorado numbering approximately 5800 members. Our Credit Union is a member of SunCorp Federal Credit Union.

I believe that the proposed regulation is fundamentally flawed and must be rewritten in its entirety. NCUA has stated that they want to preserve the Corporates, but the new “rules based” instead of the current “principal based” regulation will prove to eliminate them.

The proposed regulation does not address the issue of holding impaired assets at current depressed prices while asking member owners for more capital. I recently attended the NCUA Dallas Town Hall meeting January 22nd, 2009, and at the meeting it was indicated by the NCUA that plans might be in play to separate these assets from the Corporates. As a Corporate volunteer, I know that this plan has not been discussed with our Corporate, and what effects that action might and will probably have on our member’s capital. That information should be shared with the public before the close period of this comment period and not delayed until after the comment period is closed. The timing is suspicious.

There is an error in the modeled assumptions that NCUA used to prove “that a corporate can in fact, grow retained earnings at or above 20 bp a year and so

achieve income from operations sufficient to build 100 bp of retained earnings in five to six years (assuming no asset growth).” This quoted directly from the newly proposed regulation. This proforma model is flawed in material ways: 1.no asset growth for any credit union over five to six-year timeframe would result in its inability to support and offset the increased costs of running that institution 2. There is no cost of capital assumed and that is not even a remote possibility what we would contribute capital at no cost, and 3. There is a 30% weighting in one asset category, student loans, and at an unbelievable spot price of LIBOR +200 bps. These are ludicrous assumptions to prove a false point.

It is also prescribed that each product offered by Corporates must be sustainable and profitable on its own. If Corporates survived with this restriction, the penalty to natural person Credit Unions would be higher priced services. The new regulations also virtually eliminate a Corporates ability to take any reasonable risk. Both of these issues will lead to impossible standards for profit and capital growth, forcing Corporates to use below market rates and above market fee structures, which would result in the reduction of deposits and services offered. These proposed actions will push Credit Unions to the for-profit world, and certainly those corporate competitors will have credit risk on their balance sheets. With a product and service lineup as outlined, an already difficult Corporate recapitalization will be next to impossible under the proposed 704.

NCUA has eliminated the vast majority of Corporate capital based solely on theoretical computer modeling. The practice of extinguishing member capital in advance of the actual investment cash losses must be abandoned. The Chairman of FASB, and current accounting rules agree that it is not required to extinguish capital before actual cash losses occur. If cash flow accounting rules would have been permitted by NCUA, most corporates could have absorbed the current investment cash flow losses within retained earnings, and without the permanent extinguishment of MCS or Paid In Capital.

Many Credit Unions do not have the means to survive without Corporates. They will not have the ability to set up and manage a separate Treasury Department within their Credit Union that would manage the modeling for more complex cash flows, and the transfers between multiple vendors handling their financial transactions. Others will not be able to support the increased expense of leaving the Corporate System - on already razor thin margins. The passage of the proposed 704 in its current form by NCUA will certainly be viewed historically as the deathblow to many of my peer Credit Unions.

Blanket statements by NCUA Board Members such as calling all Corporate volunteers incompetent is a deflection blame that is unwarranted and unfounded. Due to the complexity of Corporates, I do agree with the new requirements for continued education and minimum qualifications for volunteers. But how do you reconcile that requirement, with a six-year term limitation for volunteers? I still believe in the value of historical knowledge that experienced volunteers lend, and

a six-year term limit is borderline for successfully maintaining an experienced Board of Directors. I really question that this requirement is even necessary, but if it stays in the final regulation it should be moved to 9 or 12 years, which is industry standard.

Disclosure of executive compensation will only cause unnecessary consternation among the staff, and will not serve to reduce the risk or shore up safety and soundness of the institution. NCUA should hold Credit Unions accountable for their actions, but not regulate line item initiatives in the income statement. How long before issues such as these end up in Natural Person Credit Union's regulation 703?

Please abandon this regulatory proposal as it is severely flawed and will destroy this cooperative corporate system and possibly many credit unions too and submit workable and provable improvements.

Sincerely,

Mark Lau
President / CEO