SEMICONDUCTOR
OF MAINE
FEDERAL CREDIT UNION

February 10, 2010

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

Re: Proposed Regulation 12 CFR Part 704

Dear Ms. Rupp:

I am writing this response to NCUA's invitation for comments on its proposed amendments to Regulation 12 CFR, Part 704. Although the subject of this regulation is corporate credit unions, its impact will indirectly affect natural person credit unions. As the person who is responsible for ensuring the safety and soundness of Semiconductor of Maine FCU, I am compelled to convey my serious concerns over the negative consequences that I believe this proposed regulation in its current form will have to our credit union as well as all natural person credit unions. Most natural person credit unions depend on their corporate credit union for a number of very important services at a reasonable cost. Our corporate credit union, Tricorp FCU, is very important to our daily operational needs including overnight investments, settlement and as a liquidity resource through their various borrowing and investment options.

I believe there are some major limitations in the proposed rule that cause me a number of concerns, mostly over liquidity and investment returns. If not amended, these parts of the proposed rule will force my credit union into the undesirable position of seeking alternative, possibly far more costly, and certainly more unreliable, providers instead of a corporate credit union I and other credit unions would own.

Here are my primary concerns:

Prompt Corrective Action

My corporate Tricorp has seen 32 years of retained earnings lost to cover the losses at U.S. Central and my credit union has lost $ due to the depletion of capital at Tricorp. Tricorp continues to manage its balance sheet very conservatively and has started to rebuild its retained earnings. Tricorp should be given a reasonable time period to adjust to the new capital requirements and so we support extended the time period to meet the risk weighted capital requirements to the three years to coincide with a leverage ratio requirement of three years as well.

405 Western Avenue • P.O. Box 9421 • South Portland, ME 04116-9421
207-775-8371 Voice • 207-761-6235 Fax • www.semifcu.org

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NEV sensitivity analyses

I have seen analyses that show that the proposed limitations placed upon a corporate through various NEV tests do not allow the corporate to generate sufficient interest margin to build retained earnings to meet your proposed capital requirements. If enacted as drafted, this proposal will inevitably lead to some combination of increased fees being charged to me and forced expense reductions that will adversely impact the level of service and support that my credit union needs. The rule should be revised to allow for Tricorp to make sufficient income from the balance sheet to grow and invest in innovation for the benefit of all its member credit unions, while exercising an acceptable level of credit and interest rate risk.

While Tricorp's balance sheet is and always has been very conservative, information that we have received from them demonstrates that Tricorp would have been in violation of the new requirements by more than twice the proposed limitations for most its history.

Weighted average asset life

I look to Tricorp as a liquidity provider for both short- and long-term needs. I understand that the limitations placed on asset maturities or average life limitations may severely impact my ability to obtain term liquidity if I need it as well as term investments. Again, that means I will have to look elsewhere. The alternative choices are problematic as well. I do not want to be left with the choice of going to a bank for expensive funding – but that may be my only choice.

10% Deposit Concentration Limit

This proposed change may have the unintended consequence of forcing credit unions to take liquidity out of the system simply because of the volatility of Tricorp's assets. My credit union does perform its own due diligence on all of our depositories and based on that due diligence have made decisions about how much to invest and where to invest our investable funds. We are able to invest an unlimited amount of funds in a bank as long as proper due diligence is performed and Tricorp should be able to have the same ability to accept deposits based on our due diligence efforts.

Indemnification Payments

This proposed change may dissuade credit union executives from serving on the board of a corporate credit union. In one part of the proposed regulation you are requiring that directors of corporate credit unions must meet eligibility requirements and we agree that qualified directors and management are crucial for a corporate to succeed. This proposed change seems to impose limits on protecting directors and management even if they have performed their duties in good faith.

This proposed change should be not be implemented, and corporate credit unions should be able to decide how to provide indemnification for directors and management.

Prohibition against redeeming certificates at a premium

My credit union has benefited from enhanced yields on my excess funds placed with my corporate (Tricorp), but I do not see why I am not able to obtain a premium on certificate redemption if I need liquidity. If this proposed change stays in, I will have to seriously consider putting my longer-term investable funds elsewhere in liquid instruments that do not penalize early redemptions. All credit unions will be forced into the same choice, which will effectively mean the end of corporate certificates as a competitive investing option. That will not be good for my credit union, Tricorp, or the system as a whole. This proposal should be removed.

Prohibition on Replenishing Capital

This is another example of a rule whose impact may not be fully realized until it is in place and it is too late to revise. No one knows whether or not there will be recoveries at US Central but Tricorp has had $38 million in capital taken for losses that to a large degree may not occur for several years or maybe not all. Then again maybe the projections are right but if not, credit unions should be able to receive back whatever portion of the capital that has been lost that becomes available. If Tricorp is meeting its regulatory capital requirements then there should be no reason not to reimburse credit unions – it is their money.

Elimination of the provision in the regulation for a wholesale corporate

While we are all very unhappy with the costs that have been associated with U.S. Central's investment portfolio, we do not want to see the very valuable and unique automated payment system discontinued leaving us to the devices of the banking system. The corporate credit union automated payment system is a crown jewel of the credit union system as whole that provides for the safe, efficient and cost effective payment of many credit union payments such as debit and credit card transactions as well as ATM and many other payments. Along with automated settlement are three other very important services – access to the overnight investment market, access to a term portfolio and access to external liquidity in the marketplace. These are all very important services that Tricorp utilizes and in turn provides to our credit union. Without a payment system and access to various liquidity services as described from my corporate, it will be very difficult to replace these and it will require several vendors and/or partners to duplicate.

Whether or not U.S. Central has to be reorganized or these services can be provided through a CUSO, the very important and valuable functions should be preserved so that there is no disruption to the credit union payment system. At the same time, it does not appear to make sense that there will be a great deal of time and money spent to recreate what is already a very good functioning book of business.

Impact to Semiconductor of Maine FCU

The impact of the proposed regulation seems to weigh even more heavily on smaller asset credit unions like Semiconductor of Maine FCU who depend heavily on the services provided by our corporate credit union. If the regulations are amended as currently proposed, certainly mergers of corporate will follow. Consequently, the increased costs that will come along with the reduction of options for overnight investments, settlement, and liquidity resources will put further pressure on smaller credit unions to merge. The continued loss of smaller credit unions will significantly change the credit union industry in numerous negative ways.

The above areas comprise my major concerns with your proposed rule, and I hope that my comment on this is sufficient to prompt you to reconsider these proposals in the ways I have indicated.

It is very clear to me that you have put an incalculable amount of time, thought and consideration into a proposal that you intend to strengthen the corporate network and be of lasting value to all credit unions.

I want to see it work the right way, and I hope that my comments, along with those of my fellow credit union leaders, will assist you in making that happen.

Sincerely,

Diana Garcia

Diana Garcia
President/CEO

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