Maine Credit Union League

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February 11, 2010

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

Re: Proposed Revisions to Rule 704

Dear Ms. Rupp:

The Maine Credit Union League, the trade association for Maine's 66 credit unions, would like to express its comments on the proposed corporate credit union Regulation.

The Maine League applauds the review conducted by the NCUA which has been prompted by the corporate credit union crisis.

We believe that there are credible changes proposed for Part 704. These include proposals to address problems that have been endemic in the current crisis. These include capital insufficiencies among the corporates and U.S. Central, failure to address asset financing with shorter term funding, insufficient sources of alternative liquidity particularly in today's marketplace and the ill advised concentration of investments in mortgage related products at all levels in the corporate movement.

We believe, however, that some of the restrictive changes in the proposed Regulation go beyond addressing the problems and will frankly eliminate many corporates in the near term, which will hinder credit unions in their operations, increase costs to credit unions, limit choices for investments options and force natural person credit unions to look for non-traditional providers to assist in day to day operations.

Credit Risk Shock. The Proposed Rule introduces new NEV testing, a credit widening NEV test, and a credit widening slow down (50%) test. As drafted, the Regulation calls for 300 bps credit shock to base case pricing. It also indicates that limits will be set at the level that is applied to the + 300 bps interest rate shock test. We observe that most corporates and industry commentators indicate that there is no realistic combination of

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assets, with a two year average life and limited extension risk, which can generate sufficient margin to attract funding *and to pass a 300 bps credit shock test*. We recommend that the Proposed Rule be amended to reduce the credit spread widening to 100 bps.

Prohibition Against Redeeming Certificates at a Premium. The Proposed Regulation eliminates the ability of corporates to redeem, by policy, outstanding certificates at market rates even if those rates generate a premium dollar price. This will place corporates at a tremendous disadvantage essentially nullifying any institutional funding market opportunity for term certificates. This change will also adversely impact system liquidity, the ability of corporates to develop proper funding strategies and may impact the ability of corporates to provide needed lines of credit to credit unions for their operations. Moving term funding off corporate balance sheets will reduce overall liquidity in the corporate system which will drive greater dependence on highly volatile short term shares funding corporate balance sheets. This will have a direct and negative impact on the ability of corporates to generate net interest income to build retained earnings and the reduction in long term assets to pledge as collateral will hamstring corporates' capacity to fund lines of credit. We believe the current Rule regarding certificate redemption should be left alone.

Capital Requirements. The current proposal will compel the corporates to raise new capital and/or convert existing MCA into the new Perpetual Contributed Capital. Corporates must attain the new capital ratios after the first twelve months and as presented, corporates must also meet the leverage ratio requirements during that time frame. The Agency's statement that *"only 2 of the 28 corporates would be considered well capitalized or adequately capitalized today, while 16 of 28 . . . would be considered critically undercapitalized . . ."* is telling. We observe that this short time span will in all likelihood place many corporates in PCA, notwithstanding what might be credible strides towards meeting the required ratios.

We recommend that the time frame for meeting required risk-based capital ratios be expanded to three years and that this time frame include all requirements for minimum leverage ratios.

Legacy Assets and Capital Replenishment. We point out that GAAP does not mandate the extinguishment of capital based on estimated losses. We have deep concern over the proposed requirement to permanently deplete capital and submit that corporates should be permitted to restore capital to members if actual losses prove less than projected. The NCUA should permit accounting for corporates in accordance with FASB and related national standards which do not and will not permanently deplete capital based on projections which may change. Several industry comments propose the creation of a mechanism to replenish the capital of credit unions or to use the stabilization fund to absorb future impairment of legacy assets and to shield new capital values. The Maine League supports those proposals and encourages the NCUA to adopt them.

Credit Risk Management. The proposed reduction of the single obligor aggregate investment limit will drastically reduce liquidity and force credit unions to place funds outside of the corporate system. The migration of liquidity will reduce deposit program efficiencies and create larger risks for credit unions. There is no precedent for such a regulation and when combined with the proposed capital standard benchmarks, corporates will experience substantial impediments to their capacity to compete. We observe that the regulatory environment will permit credit unions to invest unlimited sums in banks following "due diligence." Credit unions should not be barred from investing those funds in a corporate, provided the same due diligence is addressed. We support industry recommendations that single obligor limits should be limited to the greater of 10% of a corporate's assets or 100% of a corporate's assets that have risk weighting of 20% or less.

Corporate Governance and Indemnification. The Maine League supports the provisions mandating that the majority of corporate directors must serve as representatives of natural person credit unions and the requirements for certain minimum credentials for Board members. The League opposes the term limits provision and observes that while "new blood" can be healthy for credit union boards of directors, to prohibit service following what in most corporates would be two terms for a director, will force the removal of seasoned and dedicated directors which credit unions and corporates have great need of retaining.

The proposed prohibition on indemnification, regardless of the financial condition of a corporate, is simply untenable. To expose directors acting in good faith and exercising reasonable and prudent business judgment to unlimited personal and professional liability with respect to decisions made in carrying out their board positions, will drastically hamper corporate boards' recruitment and board retention efforts.

Prompt Corrective Action. The departure from current Part 704, coupled with the required leverage ratios, retained earnings minimums and capitalization requirements will create a series of regulatory actions one year from the effective date of the Proposed Rule. It is difficult not to be cynical about the proposed PCA requirement. As noted throughout the comments above, the bar set for corporates by the Proposed Rule is too rigorous and for all practical purposes, unattainable in many respects. As with the relaxation of the proposed timeframes to attain capital and to meet leverage ratio requirements, we urge that the final Rule extend the time for regulatory action to permit corporates to recapitalize, to become profitable and to address critical needs of natural person credit unions across the country.

We appreciate the opportunity to comment on the Proposed Rule.

Very truly yours,

John G. Murphy
President