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February 12, 2010

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

Dear Members of the Board:

Please find my comments regarding the proposed revisions to Part 704 as it relates to the operations of corporate credit unions. Our credit union leadership has dire concern(s) to many of the proposed revisions, and we appreciate your diligent approach in your review.

We ask that you not interpret our attempt at brevity as a lack of interest or apathy toward said revisions, rather as a respect for your time and energy as it is our belief that you will be inundated by thousands of natural person credit union responses. We hope that most of our peers' comments share our general viewpoint--- a concern that said revisions are stifling and will have a long-term effect of crippling our credit union movement.

Unless my math is wrong, the capital requirements and how a corporate portfolio might perform to reach the new capital benchmarks are just not realistic. Thus I conclude that NCUA's apparent desire (through the proposed revisions to Part 704) is geared toward a forced functional obsolescence of many smaller corporate credit unions, i.e. consolidation. I would love to be proven wrong.

It is my belief that the consolidation of corporates also creates concentration risk which is (in part) how we got to the corporate problems of today. It would appear as though our industry is not very good at mitigating concentration risk---whether it is the number of corporate credit unions; types of investments inside the corporate (ironically, which you address in your proposal); or real estate loans held at natural person credit unions (NPCUs). In any instance, why consciously create a model that has more of it---concentration risk that is? A system of large corporate credit unions seems to set up for bigger problems down the road.

Prior to consolidation, as some corporates fight for survival, two things will happen. First, the earnings pressures placed on corporates will translate to the NPCUs in the form of higher fees; less yields; increased borrowing costs; limited new services; increased operating expense and impaired service delivery. Let's be honest, the last thing NPCUs need right now is increased operating expense and reduced earnings. Unfortunately, when some credit unions further pass said costs through the supply chain to the member (the "zero sum" game), we violate our very reason to exist. Yes, moral hazard and reputation risk become a very real concern.

Second, back to meeting the reserve requirements. Failure to generate enough revenue to achieve capital growth will force corporates to reduce assets. Reduced assets in corporate credit unions will force natural person credit unions to seek solutions outside of our cooperative network (French for banks) resultant in more risk, and in the case of Missouri credit unions, we will forego a Franchise Tax deduction. Geesh, just what we need---more investment in banks so that we help fund their political lobby to assist in their goal to eliminate credit unions as a competitor. Call me crazy, but we need not take any step to assist our own suicide.

As our movement seeks solutions to mitigate the risk associated with our cooperative credit union structure, we must insure that strong consideration be given to the unintended consequences that could result from our actions. There would appear to be a place far short of the proposed measures that would insure safety and soundness while insuring the long-term viability of corporates and the credit unions that have come to depend on them.

Let's move to that place...(1) lessen the capital requirements by lengthening the qualification time; (2) too little mismatch risk in Section 704.8 limits the corporates ability to achieve necessary earnings; (3) also 704.8 does not account for core deposits which further diminishes the likelihood of generating sufficient earnings; and (4) eliminate the new penalties for early CD redemption.

I thank you in advance for your consideration of these ideas and your attention to the strengthening of our cooperative credit union movement. Your assiduous approach to insuring the well-being and confidence of 90 million plus members is paramount to our success.

Sincerely,

Patrick K. Adams
President/CEO