Contra Costa
Federal Credit Union
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February 12, 2010

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

Re: Comments of Part 704 of the Credit Union Rules and Regulations – Corporate Credit Unions

Dear Ms. Rupp:

On behalf of our Credit Union which serves 27,500 members primarily in California, I appreciate the opportunity to comments on NCUA's proposed amendments to Part 704, which would make major revisions to the structure of corporate credit unions.

We thank NCUA for proposing regulations that will help improve and strengthen the corporate system. Our comments on selected portions of the regulation are as follows:

<u>Time Period for Capital Ratio Attainment</u>

The one-year window required by the proposal to attain the 4% leverage ratio will require corporates to bring in new capital in the form of additional Perpetual Contributed Capital (PCC) at a time when significant issues remain unresolved regarding the legacy assets. Many of my colleagues have questioned whether to contribute more uninsured capital after being forced to write off a significant amount of the old Membership Capital Account. To some, it would be throwing good money after bad.

It also seems that accumulating core capital to 2% after six years is not attainable. In the text, NCUA assumes no growth in the corporate for five years. Since Natural Person Credit Unions (NPCUs) such as ourselves will probably be growing, we will be forced to invest outside the corporate system for the corporates to get to the 2%. NCUA's assumptions are not reasonable, and the outflow of funds outside the corporate system would be detrimental.

<u>Retained Earnings Growth Model</u>

NCUA's model assumes 30% of the portfolio invested in student loans. Private student loans are typically illiquid and are more volatile and of lower credit quality than securities backed by the federal agencies. Secondly, it is doubtful that the corporates

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could find enough securities to get close to NCUA's assumption. Thirdly, why doesn't the model include mortgage-backed securities (MBS)? There are many "plain vanilla" and less risky MBS that are appropriate in the portfolio. If NCUA overly limits income capabilities of the corporates, then the corporates will not survive long-term.

Weighted Average Life Limits

NCUA's cash flow weighted average life mismatch limit, combined with the aggregate weighted average assets of two years, will severely limit a corporate's ability to earn enough income to serve the NPCUs and be in compliance with the proposed capital requirements. Years ago, NCUA examiners were expecting NPCUs to have "perfect" matching of assets and liabilities. For example, some examiners were actually recommending NPCUs offer 30-year share certificates to match against 30-year real estate loans. This, of course, was found to be fallacious logic on a number of levels. Very few credit union members would opt for a 30-year certificate, and very few real estate loans go for the entire 30 years. If the corporates cannot maintain an adequate spread, they cannot possibly offer a market interest rate on their share products, liquidity would dry up, and the corporate would go out of business. We realize that some of the corporates own investments that could potentially pay down around the middle of this century. However, NCUA's proposal goes too far the other way.

Corporate System Structure

We agree that a second tier such as U.S. Central, is not necessary.

Corporate CUSOs

We are in favor of corporates owning CUSOs to provide services to NPCUs at a reasonable cost. We utilize a corporate CUSO providing member business loan underwriting and compliance and find them to be competent at a competitive price.

Corporate Governance

We agree with the proposal surrounding corporate governance. The six-year term limit and qualifications are more than adequate. We do believe, however, that certain outside directors with investment experience be permitted to serve, as long as adequate safeguards are in place to address conflicts of interest.

<u>Disclosure of Director and Executive Compensation</u>

We agree with this portion of the proposal. We were frankly shocked and disappointed at the salaries and benefits given to senior management of our local corporate. They were outrageous and lacked complete transparency. We firmly believe we were not given adequate information to make informed decisions on the financial condition of our corporate. Compensation disclosure will make senior management more accountable.

<u>Limitations on Golden Parachute and Indemnification Provisions</u>

We are against <u>any</u> golden parachute or indemnification payments.

<u>Premium for Early Withdrawals on Corporate Certificates</u>

We believe corporates should not redeem share certificates at a "market-based price." It should be the NPCU's responsibility to properly forecast cash flows without being artificially assisted by a realized gain. Since share certificates are not marketable securities by nature, there should not be market-based pricing.

<u>Perpetual Contributed Capital</u>

We support eliminating the current prohibition requiring NPCUs to contribute capital to obtain membership or receive services. We use our corporate for a variety of electronic processing services and have no problem paying a premium in exchange for not contributing at-risk capital. It is doubtful we will contribute capital to a corporate after losing almost $5 million in 2009. We also support corporate board and management deciding which business model to pursue regarding PCC.

<u>Limitations on Dividend Payments</u>

NCUA's proposal will prohibit an undercapitalized corporate from paying dividends on capital accounts, unless it obtains NCUA prior written approval. While we feel this will limit recapitalization of the corporates, capital accounts are defined as risky, and dividends should not be guaranteed in those circumstances. NPCUs need to be informed well in advance when this situation occurs.

Federal Funds Concentration Limits

Federal funds investments are not specifically excluded from the sector concentration limits. As a result, corporates will have severely limited access to the fed funds market. Since fed funds are overnight investments with very little risk, we recommend they be included with a reasonably large limit, for example, 150% of total capital on transactions with a term of 90 days or less.

Separate Corporate Credit Union Share Insurance Fund

A separate corporate credit union share insurance fund is not included in proposed regulations. While this issue has been dismissed at NCUA town hall meetings, we feel strongly that our current NCUSIF assessments would have been mitigated with a separate risk-rated corporate share insurance structure. In other words, the corporates with the riskier portfolios would have to pay more into the share insurance fund. In fact, we would like to see NPCUs be risk-rated as well for SIF purposes. This rewards the credit unions that have conservative loan underwriting, investment portfolios, and adequate compliance. This works well in the insurance industry and can be easily incorporated in this situation..

We appreciate the opportunity to respond to your proposed regulation. Thank you for your consideration of our views.

Sincerely,

David M. Green
President/CEO