From:	Roberta Kreitz - 72842
To:	_Regulatory Comments
Subject:	Roberta Kreitz Comments on Part 704 Corporate Credit Unions
Date:	Tuesday, February 16, 2010 2:55:00 PM

To Whom It May Concern:
I would like to take this opportunity to express my concerns regarding the Proposed Regulation 704 Corporate Credit Unions. I feel the objectives of the NCUA are commendable and are merited by the recent economic turmoil; however, the extent of these restrictions raises serious questions about the ability of the Corporate system to maintain profitability going forward.

704.8 (d), (e), (f), (h) The proposal for the NEV analysis should be used on the entire balance sheet, not just the assets. As accounting standards move closer to fair value measurement, it would be improper to apply risk measurements inconsistently across the balance sheet.

The proposed changes include a provision that specifically prohibits certain types of investments, including derivatives, but does not indicate which derivatives would be prohibited. Corporate credit unions do not use derivative transactions for speculative trading, and have not experienced any losses as a result of default on a derivative. Derivatives are used to manage interest rate risk on the balance sheet. Eliminating the use of derivatives would increase risk in the credit union system.

There is some concern in the industry that these tests are so stringent that they could stop Corporates from doing business altogether. They do not allow the Corporates to generate sufficient interest margin to build retained earnings to meet proposed capital requirements. The tests do not consider the difference in asset classes, and are treating all assets as if they are the same.

704.8 (c) The proposal for the penalty for early withdrawals on Corporate certificates should be removed from the proposed regulation. This proposal would effectively eliminate all but the shortest maturities in the certificate market, and possibly bring about the end of the Corporate certificate market altogether. This market is relied upon by NPCUs for ease of use, higher yields, and the ability to structure investments to meet the liquidity needs of the credit union. This ruling will virtually eliminate the Corporates' ability to fund NPCUs' lines of credit and would reduce overall liquidity in the credit union system, which would trigger Corporates to sell their securities early and cause the loss recognition.

704.8 (h) The proposal to limit the weighted average life of the Corporates' investment portfolio to two years should be eliminated from the proposal. Forcing Corporates to a two-year WAL will require them to issue mostly short-term loans. If a longer term loan is issued the Corporate would have to charge more in interest and fees to compensate for the negative WAL impact. These higher fees and interest would drive NPCUs to the FHLB or a bank for funding. As written the proposal will most likely increase the borrowing costs for NPCUs and limit their access to term funding as an interest rate risk management tool. This proposal will also reduce the asset mix and prohibit efforts to diversify the balance sheet mix of the Corporates.

704.6 (c) & (d) The concentration limit proposal is too small and restrictive, and may drive up costs in search of alternatives. A Corporate will be challenged to invest short-term liquidity at reasonable rates. This proposal will impact the overnight rates for NPCUs. The proposal could be amended to allow a larger single obligor limit, or to include Federal Funds in the exemption from sector concentration limits.

704.8 (k) The proposal to limit business generated from an individual credit union to 10% of daily average net assets should be revised. This restriction could negatively affect the Corporates' short-term borrowing ability, and may force the Corporate to accept less favorable terms regarding price, maturity and collateral. This could increase cash balances, and negatively impact earnings and the Corporates' service to NPCUs. A higher borrowing limit could alleviate these concerns.

704.11 The proposal to limit the brokerage service, investment advisory service and "other categories of service as approved in writing by the NCUA" is concerning. We need a clear definition of what CUSO activities will be allowed. Without the joint partnerships between NPCUs and Corporates we risk reducing the level of expertise available to all credit unions. Partnerships would not be effective if there was a constant threat of pulling out because of the NCUA.

The proposed regulation would impact NPCUs negatively, by resulting in the disappearance of affordable lending, increased fees for payment services, potential changes in product offerings, fewer competitive investing options and lower yields on investment options, to name a few. The impact will be felt mainly by the small and mid-size credit unions. Please consider the long-term effects of this legislation on the Corporate and NPCUs before proceeding.

Sincerely,

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