



**Mountain Gem
Credit Union**

421 11th Ave. S.
P.O. Box 309
Nampa, ID 83651-4232

February 17, 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

We appreciate NCUA's need to take action to address areas within Part 704 dealing with corporate capital levels and investment authorities and agree with many of the controls and limits in the proposed regulation. However Mountain Gem has significant concerns with some of the limitations that would severely impact the ability of corporate credit unions to continue to offer the services our credit union needs.

Currently, our credit union uses our corporate credit union for member share draft clearings, ACH services, lines of credit, wire transfer services, and investments (both overnight and long term). We rely on their low cost services to enable our small credit union to continue to offer affordable prices to our members. Without our corporate, we would have to replace services with several vendors at substantial increased costs. If the proposed legislation is enacted unchanged, we do not believe any corporate credit union will be able to offer these services at a competitive price to our credit union. The additional costs and personnel required if we were forced to contract for these services with other providers would have a significant impact on our credit union's profitability.

Here are our primary concerns:

704.2 – Definitions

NCUA has required the extinguishment of NPCU capital based on projected losses, in many cases because of the modeled estimates of a single vendor. These provisions should be removed; there should be no forced extinguishment of capital until actual cash-flow losses are realized.

704.6 (c) & (d) – Concentration Limits

The proposals for concentration limits will result in reducing the earnings on overnight funds for our credit union. Please consider the following modifications to this section:

- Exempt Federal Funds from sector concentration limits
- Establish a limit of 200% of capital for any single entity for Federal Funds sold to other financial institutions.

704.8 (c) – Penalty for early withdrawals on corporate certificates

Our credit union places the majority of our investments with a corporate credit union. Eliminating the ability to receive a premium on certificate redemptions will eliminate any incentive for us to continue to place longer-term funds with a corporate credit union

704.8 (d), (e), (f) - Net Economic Value Tests

Analyses regarding Net Economic Value tests point to insufficient margin generation for the Corporates to rebuild capital or provide natural person credit unions with attractive yields. If enacted as drafted, this proposal will inevitably lead to increased fees being charged to us. We encourage a revision to the proposed regulation that would allow Corporates to earn sufficient income from their balance sheet, while maintaining an acceptable level of risk, to benefit all of their member credit unions.

704.8 (h) – Weighted Average Asset Life

Under this provision, the weighted average life (WAL) of the Corporates' investment portfolio, excluding derivatives and equity investments, may not exceed two years. This rule would force the Corporates to issue short-term loans almost exclusively to ensure that they meet the two-year ceiling. The Corporate would have to charge significantly more in interest and fees to compensate for the negative WAL impact. This provision would be counter to the original purpose of Corporates: to provide cheap liquidity to credit unions. This limitation should be eliminated entirely, especially with the proposed new limitations on Corporate investments.

704.8 (k) – Limit on Business Generated from Individual Credit Unions

Under the proposed regulation a Corporate would be prohibited from having a single member or entity make up more than 10 percent of its moving daily average net assets. This restriction could negatively affect the Corporates' short-term borrowing ability as well as the options credit unions can choose. A simple fix would be to give an exemption from this provision for the Federal Reserve Bank, a Federal Home Loan Bank, etc. *or* increase the limit to 20 percent of the Corporates' daily average net assets.

There are a number of good proposals in these regulations in its current state; however, there are also serious issues that must be addressed, as listed above. I hope that Mountain Gem's comments are sufficient to prompt you to reconsider these proposals in the ways we have indicated.

Thank you for your consideration.

Sincerely,

Cheri L. Schaafs, President/CEO
Mountain Gem Credit Union

Leroy Gillatt, Chairman
Mountain Gem Credit Union

