From:	Karen L. Brown
To:	_Regulatory Comments
Subject:	Karen L Brown Comments on Part 704 Corporate Credit Unions
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There are multiple issues with the regulation as currently proposed with several substantive unintended consequences to credit unions. These issues MUST BE addressed before the regulation becomes final. I will touch on several of the issues from my point of view.

1. One critical area of concern is the unintended consequences surrounding two points, the average life requirement and the credit shock test. Without changes to both of these areas, natural person credit unions will see significantly higher fees for products and services. These fees could be so high as to force credit unions to turn to non-cooperative solutions such as banks. Secondly, natural person credit unions will experience lower rates on investments, likely in the range of 20 to 25 basis points. This would cost member credit unions millions in lost income annually!!! Again, the resulting offerings would likely be so uncompetitive as to force credit unions to turn to non-cooperative solutions such as banks. Thirdly, term lending currently available to natural person credit unions would likely be significantly curtailed or abandoned, again forcing natural person credit unions to non-cooperative solutions such as banks. ALL OF THE ABOVE WOULD BE EXTREMELY DETRIMENTAL TO THE CREDIT UNION MOVEMENT LONG TERM!! I believe the banks are licking their chops, just waiting for the natural person credit unions to come to them looking to meet our investment and credit needs. We cannot forget that banks would love nothing more than to eliminate credit unions from the financial face of the earth!
2. Much of the Proposed Regulation is based upon the implementation of new, tighter standards. These proposed standards will greatly limit, if not totally prohibit, corporate credit unions from generating sufficient income to build critically needed capital.
3. Some items in the proposed business model for corporates are unrealistic, such as there being no cost for capital. Members will not contribute additional capital without a credit premium. Also, high-yielding, single asset class concentration (private student loans ABS) are beyond levels believed to be prudent. Nor is the private student loan sector deep enough to support aggregate corporate demand. Please note that this relatively small segment of investments is projected to produce almost 60% of projected corporate income, which is totally unreasonable.
4. Regarding the legacy assets, corporates having OTTI on their books still have adjustments to make to net interest income going forward that equals about 10 basis points, making it impossible for those corporate credit unions to meet the proposed capital requirements. Furthermore, member credit unions, LIKE MY OWN, are highly unlikely to re-capitalize a corporate credit union if they think they will continue to be exposed to losses from these assets. And this would further prohibit corporates from paying market rates to its member credit unions on virtually any of its deposits.
5. There was talk that NCUA might assume those legacy assets and that future recoveries might then be fed back to NCUA's credit unions. Please don't forget that there are ASI insured credit union that have also written off corporate credit union Paid-in-Capital and Membership Shares who would be entitled to future legacy asset recoveries.
6. The Proposed Regulation prevents redeeming certificates at a premium. This will likely

have a significant negative effect in the marketplace as corporate certificates will *de facto* be less liquid than other providers and considered inferior to other offerings unless there is a substantial price differential, which corporates will be unlikely able to afford.

7. The Proposed Regulation appears to vest an untenable level of regulatory control with little oversight, no required documentation and no objective appeal process. THIS IS UNACCEPTABLE! At a minimum, NCUA board approval should be required to reassess capital level requirements or regulatory rating changes at corporate credit unions. What could become an extremely subjective and arbitrary process is totally unacceptable! We would recommend that the NCUA board approve any such changes ONLY with a) appropriate documentation of risk and b) the opportunity for the corporate to offer explanatory evidence.
8. Regarding governance and board limits, I firmly believe that term limits do not ensure a well qualified and diverse board, only a new board. It is much more important to charge a corporate credit union's nominating committee with the responsibility of establishing detailed criteria for the expertise of board members. Nominating committees should be required to define the qualifications of ideal or targeted candidates. Corporates should also require that boards and board members adopt best practices related to attendance, training, self assessment and review. We would also recommend expanding the proposed term limit of 6 years to 9 to 12 years to allow for a knowledge ramp-up that only occurs over time.
9. The Proposed Regulation prevents indemnity in some cases, exposing volunteer directors and management to unlimited personal risk. This obviously could result in extreme difficulty finding and maintaining volunteers and management. Quality leadership is critical for the future and preventing indemnity in certain situations may cause many capable leaders not to participate.

In conclusion, it is unbelievably important for NCUA to recognize the incalculable value brought to the credit union industry by corporate credit unions over a period of many years. They have undoubtedly added great strength and stability to their member credit unions and to the industry as a whole. Attempting to virtually eliminate risk or minimize the risk to an unreasonable level in the corporate credit union system will likely lead to the total destruction of the credit union industry. Instead, find a level of risk mitigation that will give corporate credit unions the leeway to manage the risk responsibly and meet the needs of its member credit unions.

Respectfully submitted,

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