From: Evan Clark
To: _Regulatory Comments
Subject: Other Comments on proposed corporate regulations
Date: Thursday, February 18, 2010 2:22:13 PM

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

Dear Ms. Rupp,

I applaud the NCUA for their leadership in the solution of the corporate credit union issues. I have completely read through the proposed corporate regulations and although I believe they have merit I see several areas for concern. The most important area of concern regards credit evaluation of the collateral underlying investments the corporate credit unions may consider for purchase. My concerns in this area are so great that I have forwarded a separate letter to you regarding this topic. I cannot overemphasize my concerns about the inappropriateness of NCUA's approach to credit evaluation in the proposed corporate regulations. That said here are the other areas of concern I have.

1. Too much emphasis on NEV for ALM monitoring without guidelines for how NEV assumptions will be reviewed. NEV is a very easily manipulated ALM monitoring tool. If NEV is to be used as a measure of interest rate risk then guidelines for evaluation of the underlying NEV assumptions should be outlined. Again, NEV is a very easily manipulated.

2. No guidelines for testing Net Interest Income (NII). NII is a much more effective tool for measuring interest rate risk than NEV. And yet scant mention is made of NII and again there are no guidelines for its proper measurement.

3. What exactly is an instantaneous spread widening? A clear definition, (if that's possible) needs to be put into the regulations of what instantaneous spread widening is.

4. The average life of two years limitation on investments will effectively prevent corporates from buying mortgage backed securities because the average lives of these securities are affected primarily by interest rate changes. If interest rates rise the average lives of the investments they buy will extend. Will they then be forced to sell the bonds at a potential loss in an adverse market environment? (Can you say CapCorp?) Instead of MBS's they will be forced to buy asset backed securities. If the credit of the underlying collateral has been properly reviewed MBS's would be safer assets from a credit basis than asset backed securities because it is credit issues that typically affect the average lives of asset backed securities.

5. Related to the average life of two years issue, there is no differentiation between variable rate and fixed rate MBS's. Even though the average life of a variable rate MBS will extend when interest rates rise, the return on the bond also increases thereby improving the holding entity's bottom line and helping to maintain the NII position of the corporate.

6. With expanded authority the corporates would be able to invest in all sorts of foreign

assets. Why does a corporate need to do this? Is there anyone on staff at a corporate that has the expertise to evaluate such investments? I would delete this part of the proposed regulations.

7. No one from staff of a trade association should serve on the Board of a corporate. This should be included in the proposed regulations.

8. On page 59 of the commentary of the proposed regulations there is discussion of long term investments that can be rated one grade below investment grade. First of all, the ratings of the rating agencies should not be used to adjudicate appropriate investments for corporate credit unions and secondly, no investment, even if it is a traded position, should be one grade below investment grade.

9. The approximate average life mismatch of .25 years described in pages 87 and 88 of the proposed regulation commentary is too restrictive for a corporate to make sufficient margin to cover operations.

10. On page 100 of the proposed corporate regulation commentary there is a chart that shows corporate credit unions' liabilities with a spread to LIBOR of zero. This is a totally unrealistic assumption. No credit union will invest at their corporate at LIBOR flat. This fallacious assumption brings into question NCUA's assumption that corporates can operate profitably under the restrictions in the proposed corporate regulations. And by inference it brings into question the corporate credit unions' ability to raise the amounts of retained earnings required by the new corporate regulations.

These are my thoughts on the major areas of concern I saw. I hope that many people take the time to read the corporate regs and draw their own conclusions. The collapse of the corporates will affect the bottom line of every credit union for years to come. Just on this basis it is essential to the credit union industry that the corporate credit unions be regulated by regulations that prevent this from happening in the future. I do not believe the proposed regulations meet that standard.

Sincerely,

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