



February 18, 2010

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

Dear Ms. Rupp:

Thank you for the opportunity to provide comment on the NCUA Proposed Rule 12 CFT Part 704 concerning the role of the Corporate Credit Union Network.

Iowa Corporate is supportive of NCUA's efforts to improve Regulation Part 704, but we are extremely concerned that the proposed regulation is embedded with the risk of unintended consequences that will result in a reduction of liquidity within the system and increased credit risk at corporate and natural person credit unions.

Several sections of the regulation are overly restrictive and will inhibit the ability of corporates to remain viable entities and to perform the functions necessary for the success of their members. If the limitations on corporate credit unions are restricted to the level in the proposed regulation credit unions will be driven to non-movement providers. These non-movement providers will add an additional burden to the NCUA in monitoring credit union exposure.

As a conservatively run corporate credit union our members have not incurred losses related to the recent financial crisis. This is the result of our business decisions and not the permissible activities under the current regulation.

Excessive regulation and the addition of an inordinate amount of power that is granted to the Director of the Office of Corporate Credit Unions in the proposed regulation is not the answer.

Please consider the following comments.

Section 704.3 Corporate credit union capital.

Section 704.3 (b) (6) Requirements for nonperpetual contributed capital accounts (NCA.)

Sale. A member may transfer its interest in a nonperpetual contributed capital account to a third party member or nonmember.

ICCCU Comment: We agree that corporate credit union members should have the ability to sell membership capital to another member in the corporate credit union's field of membership. However, the transaction should be subject to the approval of the corporate credit union's board of directors.

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ICCCU Recommendation: The transfer of non-perpetual contributed capital should be subject to the approval of the corporate credit unions board of directors. An exception to the requirement for approval would be in the event of a member merger or liquidation.

Section 704.3 (c) (3) Requirements for perpetual contributed capital (PCC). Callability. A corporate credit union may call perpetual contributed capital instruments only with the prior approval of the NCUA and, for state chartered corporate credit unions, the applicable state regulator. Perpetual contributed capital accounts are callable on a pro-rata basis across an issuance class.

ICCCU Comment: This section precludes a corporate from exercising the call feature for perpetual contributed capital without prior approval from the NCUA. Member credit unions may be hesitant to contribute perpetual capital with a restriction of regulatory approval to call PCC. Instead a corporate credit union should have the authority to call PCC when circumstances warrant a call.

ICCCU Recommendation: The issuing corporate should remain in control of the decision whether to exercise the call on PCC as long as the action would not cause the corporate to become under-capitalized or out of compliance with the requirements of the regulation.

Section 704.3 (d) (3) Individual minimum capital requirements. Standards for determination of appropriate individual minimum capital requirements. The appropriate minimum capital levels for an individual corporate credit union cannot be determined solely through the application of a rigid mathematical formula or wholly objective criteria. The decision is necessarily based, in part, on subjective judgment grounded in agency expertise. The factors to be considered in the NCUA's determination will vary in each case and may include, for example:

ICCCU Comment: We are extremely concerned with the statement above which allows for subjective judgment to be used in determining a corporate's capital status regardless of whether the corporate meets the capital standards as defined in the regulation. The subjectivity vests an unreasonable amount of power in the Director of the Office of Corporate Credit Unions (OCCU) and eliminates well defined benchmarks, inhibiting the ability of a corporate credit union to proactively manage their activities in order to ensure compliance.

ICCCU Recommendation: The ability for subjectivity should be removed from the language of this regulation and specific parameters for capital requirements should be clearly defined and applied.

704.3 (e) (3) Reservation of authority. (i) Notwithstanding the definitions of core and supplementary capital in paragraph (d) of this section, the NCUA may find that a particular asset or core or supplementary capital component has characteristics or terms that diminish its contribution to a corporate credit union's ability to absorb losses, and the NCUA may require the discounting or deduction of such asset or component from the computation of core, supplementary, or total capital.

ICCCU Comment: This section once again grants an unreasonable amount of power to the Director of the Office of Corporate Credit Unions by giving him the discretion to require a corporate credit union discount certain capital accounts from applicable capital ratios. This would give the Director the authority at any time to reduce the capital ratios of a corporate credit union and in turn reduce the capital classification and ratings.

ICCCU Recommendation: If a capital account meets the definitions contained in the regulation of core or supplementary capital it should be included in the governing capital ratios.

Section 704.4 Prompt Corrective Action

704.4 (d) (3) Capital measures and capital category definitions. Reclassification based on supervisory criteria other than capital. Notwithstanding the elements of paragraph (d) (2) of this section, the NCUA may reclassify a well capitalized corporate credit union as adequately capitalized, and may require an adequately capitalized or undercapitalized corporate credit union to comply with certain mandatory or discretionary supervisory actions as if the corporate credit union were in the next lower capital category in the following circumstances:

(i) Unsafe or unsound condition. The NCUA has determined, after notice and opportunity for hearing and pursuant to paragraph (h)(1) of this section, that the corporate credit union is in an unsafe or unsound condition; or

(ii) Unsafe or unsound practice. The NCUA has determined, after notice and an opportunity for hearing pursuant to paragraph (h)(1) of this section, that the corporate credit union received a less-than-satisfactory rating (i.e., three or lower) for any rating category (other than in a rating category specifically addressing capital adequacy) under the Corporate Risk Information System (CRIS) rating system and has not corrected the conditions that served as the basis for the less than satisfactory rating. Ratings under this paragraph (d)(3)(ii) refer to the most recent ratings (as determined either on-site or off-site by the most recent examination) of which the corporate credit union has been notified in writing.

ICCCU Comment: This section grants an unreasonable amount of power to the NCUA and potential to force Prompt Corrective Action requirements on a safe and sound institution with a strong composite score and one week category. As there are twelve separate components to the CRIS rating system it is highly likely that a corporate would receive a rating of three or worse in at least one of the components. Also there is no defined timeframe for correction of the conditions that served as the basis for the less than satisfactory rating. During the exam process corporates are given a time frame to correct deficiencies.

ICCCU Recommendation: This section should include at minimum a timeframe for correction of deficiencies. For example to state “and has not corrected the conditions that served as the basis for the deficient rating in the agreed upon timeframe referenced in the final exam report.”



704.4 (d)(4) Capital measures and capital category definitions. The NCUA may, for good cause, modify any of the percentages in paragraph (d)(2) of this section as described in §704.3(d).

ICCCU Comment: This section transfers the power from the NCUA Board to the Director of the Office of Corporate Credit Unions. Granting this unreasonable amount of power to an individual, based on his/her opinion or view, eliminates the rights of the corporate's board of directors and members to control the organization.

ICCCU Recommendation: NCUA board action should be required to modify percentages.

704.4 (k) (1) Remedial Actions towards undercapitalized, significantly undercapitalized and critically undercapitalized corporate credit unions. Provision applicable to all corporate credit unions. A corporate credit union is prohibited, unless it obtains NCUA's prior written approval, from making any capital distribution, including payment of dividends on perpetual and nonperpetual contributed capital accounts if, after making the distribution, the institution would be undercapitalized.

ICCCU Comment: This section restricts the payment of dividends for undercapitalized corporates. If a weakened corporate credit union loses the ability to pay dividends on member capital investments it may further destabilize that corporate as members look to pull capital from the corporate.

ICCCU Recommendation: The prohibition of the payment of dividends should only include significantly or critically undercapitalized corporates.

704.6 Credit Risk Management

704.6 (c)(1) Issuer Concentration Limits General rule. The aggregate of all investments in any single obligor is limited to 25% of capital or \$5 million, whichever is greater.

ICCCU Comment: The single obligor concentration limit set in this section is overly restrictive.

ICCCU Recommendation: A more appropriate limit for cash deposits in other financial institutions would be 100% of capital.

704.8 Asset and Liability Management

704.8 (f) Cash flow mismatch sensitivity analysis with 50 percent slowdown in prepayment speeds.

(1) A corporate must:

(i) Evaluate the risk in its balance sheet by measuring, at least quarterly, the impact of an instantaneous spread widening of both assets and liabilities by 300 basis points, assuming that issuer options will not be exercised, and prepayment speeds will slow by 50 percent, on its NEV and NEV ratio. If the base case NEV ratio falls below 2 percent at the last testing date, these tests must be calculated at least monthly until the base case NEV ratio again exceeds 2 percent.

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(ii) Limit its risk exposure to levels that do not result in a base case NEV ratio or any NEV ratio resulting from the tests set forth in paragraph (f)(1)(i) of this section below 1 percent; and

(iii) Limit its risk exposures to levels that do not result in a decline in NEV of more than 25 percent (30 percent for Base-Plus).

(2) All investments must be tested, excluding derivatives and equity investments. All borrowings and shares must be tested, but no contributed capital.

(3) A corporate credit union must also test for the effects of failed triggers on its NEV and NEV ratios while testing the cash flow sensitivity analysis.

ICCCU Comment: Asset backed securities (ABS) prepayment speeds tend to be more driven by economic events as opposed to interest rate or credit events. Mortgage backed securities (MBS) pay downs are subject to interest rates and economic events, and an arbitrary factor of a 50% slowdown may be warranted. The proposed rule recognizes that slowing prepayment speeds on MBS by 50%, on top of the credit shock test, requires the NEV volatility limit to be expanded by 10%.

The asset limit of 2 years in weighted average life and the credit shock/prepayment speed slowdown tests will make holdings in MBS virtually impossible. There is a significant difference between private label MBS and Agency issued MBS as GSEs do not carry any concentration limitations.

ICCCU Recommendation: To gain access to this market and earn a spread for taking prepayment risk without taking credit risk, consideration should be given to having separate rules for Agency MBS. The assessment of slowing prepayment speeds would be more reasonable if it were applied to a smaller credit shock, for example 50% of the credit shock used for other security types. Further, it is recommended that the proposed regulation apply the prepayment speed slowdown test to MBS holdings only and to eliminate the prepayment slowdown test for non-residential mortgage ABS, setting the NEV volatility limit to 40%.

704.8 (h) Weighted average asset life. The weighted average life (WAL) of a corporate credit union's investment portfolio, excluding derivative contracts and equity investments, may not exceed 2 years. A corporate credit union must test its investments at least quarterly for compliance with this WAL limitation. When calculating its WAL, a corporate credit union must assume that no issuer options will be exercised.

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ICCCU Comment: There are several securities appropriate for corporate credit union ownership that have a weighted average life in excess of two years. When investing some form of risk must be taken in order to earn a return on assets. If corporates are unable to extend assets they will be forced to take on more credit risk to achieve the returns necessary to build the required capital. By assigning a limit on the maximum weighted average life of the investment portfolio, the proposed regulation as written will increase credit risk and liquidity risk on the balance sheet.

ICCCU Recommendation: The 2 year weighted average life restriction should be removed from the regulation or extended to a more reasonable limitation. The existing and proposed modeling requirements and limits are sufficient and will encompass the interest rate risk and cash flow mismatch risk for assets.

704.8 (k) Overall limit on business generated from individual credit union. On or after [INSERT DATE 30 MONTHS AFTER DATE OF PUBLICATION OF FINAL RULES IN THE FEDERAL REGISTER], a corporate credit union is prohibited from accepting from a member or other entity any investment, including shares, loans, PCC or NCAs if, following that investment, the aggregate of all investments from that member or entity in the corporate would exceed 10% of the corporate credit union's daily average net assets.

Comment: By limiting funds from any one source to a maximum of ten percent of a corporate's assets the regulation would force funds out of the credit union system causing an overall decrease of liquidity within the system.

Recommendation: Credit unions should be able to make their own assessments of the value and risk they want to assume and an arbitrary limit placed on corporates should not be put into effect. An alternative solution could be that deposits from one source should be limited to the greater of 10% of a corporate's assets or 100% of a corporate's assets that carry a risk weighting of 20% or less.

704.11 Corporate Credit Union Service Organizations

704.11 (e) Permissible Activities. A corporate CUSO must agree to limit its activities to:

- (1) Brokerage services,*
- (2) Investment advisory services, and*
- (3) Other categories of services as approved in writing by the NCUA and published on NCUA's website.*

ICCCU Comment: This section does not address a phase in period for the approval of corporate CUSOs by the NCUA outside of those specifically listed with the regulation. As written these CUSOs would have to cease operations upon issuance of the final regulation while awaiting permission from the Agency to continue operations.



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ICCCU Recommendation: There should be a 180 day phase in period to allow NCUA time to review all requests for corporate CUSO approvals. Also there should be a 12 month period for divestiture of a CUSO that is impermissible.

704.14 Representation

704.14 (a) Board representation. The board will be determined as stipulated in its bylaws governing election procedures, provided that:

(1) At least a majority of directors, including the chair of the board, must serve on the board of representatives of member credit unions;

(2) On or after [INSERT DATE 4 MONTHS AFTER DATE OF PUBLICATION OF FINAL RULE IN THE FEDERAL REGISTER], only individuals who currently hold the position of chief executive officer, chief financial officer, or chief operating officer at a member may seek election or re-election to the board;

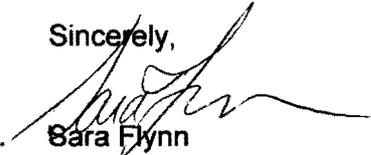
(3) No individual may be elected to the board if, at the expiration of the term to which the individual is seeking election, the individual will have served as a director for more than six consecutive years. For purposes of calculating the six-year period, any consecutive prior service on the board by representatives of the same corporate member must be counted as though the individual seeking election had fulfilled that service. Accordingly, a corporate member may not circumvent the term limit provisions by putting forward a new candidate for directorship after one or more of its prior representatives has served on the board for six consecutive years;

ICCCU Comment: The proposed regulation as written takes away the ability of corporate credit unions and their member owners to determine the appropriate tenure for their board. A long tenured and stable board is valuable as board members get to know and represent the corporates values and principles as well as gain an understanding of the complex operations of a corporate credit union. Iowa Corporate has the history of a long serving and consistent board leadership that have maintained a consistent investment philosophy and successful service to membership.

ICCCU Recommendation: The regulation should allow member owners of the corporate credit union to determine the length of time an individual may remain in the board.

Thank you once again for providing us the opportunity to respond to the proposed regulation.

Sincerely,



Sara Flynn
President/CEO

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