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EMBA
LOUISVILLE CREDIT UNION

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February 19, 2010

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration

Re: Proposed Corporate Credit Union Regulation

I am the President of KEMBA Louisville Credit Union. On behalf of my Board of Directors and the management and employees of KEMBA, I would like to respond to the proposed Regulation 704 and how it will effect our operations and relationship with Kentucky Corporate.

KEMBA Louisville Credit Union is $40 million in assets and currently serves over 5,600 members. Our field of membership is comprised of Kroger Food store employees, retirees and family members. We are currently members of Kentucky Corporate.

We experienced a loss of Paid in Capital and Membership Capital as a direct result of the US Central situation. This loss was in excess of $264,000 in 2009, with a potential additional loss of $14,000 in the first quarter of 2010. In saying this, we are against the inclusion of **704.2** of the proposed reg. If the actual losses at US Central do not approach the $2.5 billion that has been impaired, then it is our opinion at a future date the funds that were extinguished as part of our capital deposit with Kentucky Corporate should be returned to us.

This could be delayed until the corporate capital level is determined to be well capitalized. If this is strictly a safety and soundness issue, the return of funds can be delayed until adequate capital levels are met.

If loss projections improve and future model standards allow for OTTI reversals, then the projected losses may be lowered. In these cases NCUA regulatory accounting treatment should be the same as national standards and credit union capital should not be depleted. As the proposed rule is currently written the return of capital cannot happen. Who will benefit, if for instance, actual losses come in at $1 billion, instead of $2.5 billion? The actual loss at last tally was $136 million, or 5.4%. Where will the remaining $1.5 billion dollars go?

704.3 Corporate Credit Union Capital

There is an ambiguity in this section regarding effective dates to achieve a leverage ratio. As currently

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written this part would become effective 12 months after final rule is published. This should be 36 months as has been communicated by NCUA to credit unions. Tier 1 risk based capital effective date should also be 36 months, the same as leverage ratio.

It will be challenging enough to raise contributing capital in such a short time frame, based on the narrow margins that corporates operate under. It makes sense to extend the effective date for both these ratios to 36 months.

704.14 Representation

Limiting the time a board member can serve to 6 years is too restrictive. It takes time to become well versed in the daily operations of a corporate credit union and as such, 6 years is not enough time. If a term limit is going to be used, make it 9 or 12 years.

We also feel that limiting Board members to CEO, CFO or COO may remove very qualified board members who may currently serve on corporates. I have a board member who was the CEO of KEMBA for over 30 years who also presently serves on Kentucky Corporate's board. He is a highly qualified member of both of our boards and would be forced out if the current rule stands.

704.8(h) Two Year average life

Once again we feel this is too restrictive on the corporates ability to achieve a decent spread and to build capital. Longer term securities have higher yields and therefore better margins to achieve better bottom line results for the corporates. If the corporates only invest in government backed securities and stay away from non-agency securities, then they achieve a better yield with no risk. It was the non-agency securities that US Central purchased that created these losses in the first place.

A 2 year weighted average puts the corporates at a great disadvantage in terms of investment options. Agency securities are actively traded in the market and can be easily sold if liquidity becomes an issue. As stated, had US Central invested in agency backed mortgage obligations instead of non-agency products, I would not have written down $264,000 of capital.

We would like to see the reg reflect at least a 3 year wighted average and government backed securities with a weighted life restriction of 5 years.

704.8(k) Deposit Concentrations

By limiting deposit concentration to no more than 10% from any one source may be too restrictive. It could force money out of the credit union system as potential deposits go elsewhere. It penalizes corporates that acted responsibly and limits a natural person credit union on where to place excess funds. If credit unions are forced to move money out of corporates, then this in turn could force the sale of some of these distressed securities, accelerating potential losses.

This should be removed from the reg.

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Legacy Assets

The reg does not address the non performing assets that US Central currently has on its books. This needs to be addressed as the future of corporates are in the hands of NCUA for years to come. This needs to be resolved so the corporates can immediately make plans on how they will reach capital goals.

Conclusion

There are many good proposals in this reg, including raising capital requirements on corporates with higher investment risks and portfolio diversification. These provisions need to remain. The issues I addressed in the body of this comment will have an adverse effect on our corporate and our natural person credit union. Kentucky Corporate provides us with services at reasonable rates that would be more costly if we have to look elsewhere.

While the proposed NCUA Regulation, Part 704 contains many beneficial changes that will reduce risks going forward such as stronger capital standards, limits on investment concentrations, prohibiting certain securities and enhanced liquidity processes, there are other parts that if left unchanged will limit the value that corporates will be able to provide and therefore are not in the best interest of the credit union system.

Respectfully Submitted;

Donald G. Diebold Jr.

Donald G. Diebold Jr.
President KEMBA Louisville Credit Union

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