Educators
Credit Union

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

Dear Board Members:

As President of Educators Credit Union in Waco, Texas, I would like to offer my comments on the NCUA proposed rule changes as they pertain to corporate credit unions.

I believe that the continuation of corporate credit unions is vital to the continued success of Natural Person Credit Unions (NPCUs). However, the business model, as drafted, is unacceptable – the rule must provide a workable model which includes input from the corporate credit unions themselves. The corporate credit union system is both attractive and beneficial to ECU in terms of pricing of services and the insulation it provides ECU from the business decisions of larger entities that could be providers of needed services and products.

There are several services provided by our corporate credit union that are vital to our success/existence. Among the more important are:

- Check 21 remote deposit
- Checking account services
- MasterCard settlement
- Long and short term investments

Because credit unions are the only customers of corporate credit unions, they receive the attention in the above and other areas that are needed to be successful.

The ECU Board of Directors will need strong incentives in order to invest in and recapitalize our corporate credit union. The benefits they will receive in moving forward with a reinvestment must be clear and the initial investment must NOT be encumbered by toxic assets already on corporate books. Solutions must be found before our credit union will even consider moving forward with our next invested membership capital.

While I agree with the new overall capital levels suggested for corporates, I do have some doubt as to the reasonableness of a one year time frame. It is likely that 2-3 years will be needed by corporates to restructure balance sheets, adjust expenses, and re-educate the natural person credit union Board members on the value of recapitalization. Both corporate and natural person credit unions may require a longer than one year period to restore the retained earnings cushion.

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Regarding the WAL/NEV Assessment process and benchmarks (704.8 [d], [e], [f] – Net Economic Value tests (NEV), I believe that the level of testing suggested is such that it would not allow the corporates to reward investors (NPCUs), offset operating expenses, and provide for capital accretion. A reduction of the rate of return will encourage NPCUs to seek other avenues for investment, NPCU withdrawals will reduce the size of the corporate, and ultimately force the corporates to shrink below the critical mass required to sustain service levels. In an effort to boost retained earnings, an increase in costs for products and services will force some credit unions to seek alternatives that are outside of the CU system.

Corporate credit unions have routinely mismatched their balance sheets to enhance yield. Weighted average lives (WAL) of two years or less imply a fairly matched balance sheet and are too short in duration to allow corporates to generate an income stream sufficient to be competitive.

Regarding Early Withdrawal Penalties 704.8 (c) - Penalty for early withdrawal on corporate certificates. Corporates currently use a mark to market withdrawal penalty in an effort to replace the cost of the certificate being redeemed. Early withdrawal penalties are designed to control repricing of deposits in a volatile market. However, with the ability to pay a premium, corporates can no longer offer a product competitive with the securities market, prompting NPCUs to go outside the corporate structure for longer term investments.

Regarding Concentration Limits 704.8 (k) – Limits on corporates' ability to generate business. The proposed rule prohibiting corporates from having a single member or entity make up more than 10% of their daily average net assets (DANA) would in the end limit the capacity of corporates to borrow and, in turn, limit the amount of liquidity available for NPCUs to borrow from the corporate network. NPCUs would have to look elsewhere to fund their short term liquidity needs. A suggestion would be to remove this limit or raise the limit to a higher level or exclude FRB, FHLB, and Fed Funds from the equation.

The purpose of the cooperative corporate credit union system is to give discount pricing to members, better than they could find looking elsewhere. This directly correlates with allowing ample time for corporate CUs to re-capitalize by not only member capital shares, but also retained earnings. Pricing must be competitive to alternative options in the short run as well as the long run. A dramatic change in the current corporate credit union pricing model could cause credit unions to choose not to re-capitalize.

Lastly, please consider this: "Corporates provide services that are unavailable anywhere else in our cooperative industry. Without them, NPCUs would be forced to look for these services in the for-profit arena. The size of most NPCUs limits their ability to negotiate competitive pricing and contract conditions. This would undoubtedly lead to decreased net income due to increased processing fees, increased cost of borrowing and decreased investment yields. This decrease in net income will impact all credit union members; however, it falls heaviest on the members of smaller credit unions."

Thank you for allowing me this opportunity to comment on the proposed rule changes as they effect corporate credit unions and, ultimately NPCUs.

Sincerely,

Joe Hutyra, President

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