Alabama State Employees' Credit Union

February 19, 2010

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

Dear Ms. Rupp:

I'd like to thank you for this opportunity to communicate my concern to the NCUA Board regarding the proposed corporate credit union regulation.

Before I began writing my comments regarding the NCUA proposed corporate regulation, I thought about how I wanted to start it off. What better way to remind us all of the definition of a credit union and corporate credit union. A credit union is a cooperative group that makes low interest rate loans to its members. A corporate credit union provides services to natural person credit unions. The common denomination of their coexistence is that corporate credit unions are owned by the credit unions that choose to do business with that corporate.

This proposed regulation prevents credit unions from choosing the corporate credit unions they want to do business with in their entirety. To suggest that a credit union can only invest a limited amount of funds with one corporate credit union, intrudes on that coexistence. If a credit union can only invest so much with the most solvent corporate paying the highest dividends, then why would a credit union want to invest in another corporate? You're just asking for money to fly out of the credit union network and into the banks. Also, had this proposed regulation been in place before all of this chaos, credit unions would most likely have been subjected to invest with corporates that are writing off their members' capital.

Amendment to part 704 related to corporate governance gives too much control to the regulating body as currently written. Corporate Board of Director's are elected and if someone was more qualified or feels they could do a better job, they can run for the seat. Dismissing someone from the board just because of a term limit, then requiring the corporate to search for an equal or more qualified, dedicated nominee is not a guarantee. By having elections, we allow the more qualified, eager nominee to be considered and elected if the true governors/owners believe he/she can do a better job.

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While reading the proposed regulation, I keep arriving at the conclusion that a majority of these regulations are just an exercise of control more so than truly protecting NPCU investments. For example, what does disclosing "Senior Executive Officer's" salary and benefits have to do with the past crisis or the foreseeable future? I don't believe an elected Board of Directors have or would authorize the salary and/or benefits which would cause the Corporate to become insolvent, therefore causing their NPCU to incur a loss. It's not logical that a Board of Directors would jeopardize their credit union and livelihood in this manner. I believe the spotlight of the proposed regulation needs to focus solely on investments and capital.

This brings me to a section of proposed regulations that I feel are dangerous and inconsistent. Just to name a few sections in the proposed regulation:

- **704.3(d)(4)(v) Increase Individual Capital Requirements**
  - This will allow the Director of OCCU to capriciously increase the capital requirement for a single corporate. In addition, this sections states "this decision represents final agency actions" which appears to eliminate all accountability for his decisions.
- **704.3(e)(3) Disallowing Capital from Inclusion in Ratios**
  - Again, this section would give undue power to the Director of OCCU to manipulate the capital requirements for a single corporate. Why should a NCUA examiner be granted the authority to decide whether or not a capital account can be included in the ratios that so much emphasis has been placed?
- **704.4(d)(3) Lowering the Capital Category**
  - Once again, the regulation is giving the Director of OCCU the power to arbitrarily change the capital category of a corporate credit union. If the capital categories are established, why should any NCUA employee be given the authority to amend the guidelines established?
- **704.4(d)(3)(ii) Lowering the Capital Category based on Ratings**
  - Either enact a regulation stating that if a CRIS category is rated a three or worse, the corporate's capital category will be lowered or throw out this section of the proposed regulation. Why leave it up to an NCUA employee to have discretions over whether or not to lower the capital category?
- **704.4(d)(4) Lowering the Capital Category for Good Cause**
  - This section also gives the Director of OCCU power to lower a capital category for a single corporate credit union. This would open the window to potential abuse of authority.

With the aforementioned items, I believe that the regulation is written in a manner similar to herding cattle. The language seems to give unprecedented power to the Director of OCCU to reduce the capital category of any corporate at any time it so deems. Once the capital category is lowered, section 704.4(k)(2)(v) bestows NCUA the following authoritative actions:

- Eliminate or reduce dividends on any or all accounts;
- Force a merger;
- Restrict growth;
- Dissolve CUSOs;
- Remove the board;
- Fire management;
- Conserve the corporate; or
- Take any other action

If you allow a NCUA employee to do any of the actions listed above strictly based on an opinion or unsubstantiated belief of a potential problem, this will be the beginnings of a slippery slope. Why can't there be set guidelines that everyone has to follow and leave the vague, discretionary regulations out?

The justification for the proposed regulation change is to protect the NPCU and prevent this from occurring again. If we really want to protect the NPCU, don't allow capital accounts to be conditional. With the compounding effects of limiting the deposits one credit union can deposit into a corporate, therefore causing credit unions to spread funds out among numerous corporates, which then could be conditioned. The NPCU would be required to pony up the capital or, here's the irony, move the funds to a bank. Conditioning capital is a bad idea just as we learned from the US Central debacle in December of 2008. If the regulation is going to be written with conditioned capital as an option, at least mandate a 12 month grace period before the corporate can cancel services.

I ask that the NCUA Board reevaluate the proposed regulations. The objective should be to maintain a credit union system that provides credit unions the ability to invest with the corporate credit union they so choose. When a bad decision is made, let the examiner regulate that particular institution by the same regulations that all the other corporate credit union have to abide by too. My corporate has served me well, as my credit union has served its members.

Again, thank you for allowing me this opportunity to express my concern.

Ned W. McHenry

Ned W. McHenry, CEO
Alabama State Employees Credit Union