



Mary Rupp, Secretary of the Board

National Credit Union Administration

1775 Duke Street

Alexandria, VA 22314-3428

Dear Ms. Rupp:

I appreciate the opportunity to comment on the NCUA's proposed regulation concerning corporate credit unions. The proposed regulations at this time present some concerns that are covered below.

**704.3(c) Perpetual Contributed Capital**

Credit Unions should not be required to condition membership and services on a credit union's purchase of permanent capital. If such a regulation must be instated, then a natural person credit union should be given a 12 month notification at a minimum, so that it can have ample time to terminate services with the corporate if they so choose.

**704.3(c)(3) Perpetual Contributed Capital Call Feature**

A corporate credit union's decision to exercise the call feature for perpetual capital should not require prior approval from the NCUA. The issuing corporate and their board of directors should retain the authority to make these decisions. The new capital requirements for corporate credit unions in the proposed regulation already provide for increased protection of the NCUSIF.

#### **704.3(d)(4)(v) Increased Individual Capital Requirement**

To allow the Director of the Office of Corporate Credit Unions to arbitrarily select any corporate credit union and increase their capital requirements is dangerous and invites an abuse of power, especially when no appeals process exists.

#### **704.3(e)(3) Disallowing Capital from Inclusion in Ratios**

If a capital account meets the definitions contained in the regulation, the Director of the OCCU should not be granted the power to decide that any one capital account will not be included in the governing capital ratios. Again, this gives one person an excessive amount of power, and leads to the potential for abuse.

#### **704.4(d)(3) Lowering the Capital Category**

This is another instance where one individual should not have the sole authority to make a decision with the potential for such serious implications. The Director of the OCCU should not alone have the authority to change the capital category of a corporate credit union.

#### **704.4(d)(3)(ii) Lowering the Capital Category based on Ratings**

Due to the fact that there are twelve separate CRIS categories, each with individual ratings, it is almost certain that at least one of these will be rated at a three or worse for any corporate credit union. In essence, the Director of the OCCU would have the power to lower the capital category of any corporate at any time. Again, one person should not have such a concentration of authority.

#### **704.4(d)(4) Lowering the Capital Category for Good Cause**

This section again gives the Director of the OCCU sole power in this area, while it should reside with the NCUA Board.

#### **704.4(e)(5) Submission of a Capital Plan**

This section of the proposal essentially treats those corporate who are undercapitalized the same as those that are significantly undercapitalized. The OCCU should not have the authority to impose restrictions on a corporate credit union for an undue length of time when that corporate is not significantly undercapitalized.

#### **704.4(k)(1) Payment of Dividends**

Only corporate credit unions that are significantly or critically undercapitalized should be restricted from paying dividends to its members. It makes no sense to penalize good corporate credit unions from paying dividends to their members. Why would credit unions not move their funds to other accounts paying dividends? If the intent is to injure corporate credit unions, this provision would do just that.

#### **704.4(k)(2)(v) Powers over Undercapitalized Corporates**

This section states that the NCUA will have the power to 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 a corporate credit union is deemed critically undercapitalized. However, previous sections of this regulation give the Director of the OCCU the power to change capital requirements, lower capital categories, and even disallow certain capital accounts from inclusion in capital ratios. With these authorities, it appears that the Director of the OCCU can take these severe actions on any corporate credit union at any time, warranted or not. This is outrageous, and certainly not in the best interest of the credit union system.

#### **704.4(k)(6)(ii)(C) Charter or Bylaws for State Chartered Corporates**

The section infringes upon the power of state regulators by allowing NCUA to prohibit a bylaw change for state chartered corporates.

#### **704.8(e) Average life mismatch modeling**

This proposed regulation will undoubtedly force corporate credit unions to invest in short-term securities that contain credit risk and reduce their respective positions in government-backed

bonds with moderate weighted average lives. This defeats the purpose of attempting to enhance the measurements of credit risk. If a security has a risk weighting of 20 percent or less, then the average life mismatch test should not be required.

### **704.8(k) Deposit Concentrations**

Limiting deposits from any one source to no more than ten percent of a corporate's assets will ultimately drive funds out of the credit union system and into other sources. While there were many corporates that acted irresponsibly with their members' money, our corporate credit union caused us no losses. If a natural person credit union was forced to choose another source to invest their funds, this could have either caused losses that would otherwise have not occurred, or forced them to take money out of the credit union network and invest elsewhere. This is not in the best interest of the natural person credit union or the corporate network.

If risk to natural person credit unions and losses are the concern, then another solution is possible. Perhaps a corporate credit union's deposits from one source be limited to the greater of ten percent of a corporate's assets OR one hundred percent of a corporate's assets that carry a risk weighting of 20 percent or less. This will ensure that deposit concentrations are invested only in high quality, very liquid assets.

### **707.4 Prompt Corrective Action**

Information on a corporate credit union's strength should not be withheld from its members. Transparency is of the utmost importance in this day, and corporate credit unions should be required to disclose their capital category.

### **704.11(e) CUSOs**

There are currently eight corporate credit unions that own a CUSO (CNP, LLC) that performs data processing for corporate credit unions. However, data processing services are not included as a permissible activity for corporate credit unions. The regulation should allow corporate CUSOs to perform data processing services or, at a minimum, pre-approve that activity per section 704.11(e)(3).

## **Appellate Process**

We are concerned that appellate provisions will not be sufficient to keep the powers given to the NCUA and certain staff members in check, given the way that many of these proposed regulations are written.

## **Conclusion**

This proposed regulation concerns us greatly in many different ways. The Director of the OCCU has far too much control over corporate credit unions. Proper checks and balances are a requirement to insure fairness within the system. Regulations regarding maximum investment amounts and types will very likely force money out of the credit union system. Natural person credit unions look to the corporate credit union system as a liquidity provider for both short- and long-term needs. Limitations placed on corporate credit unions will force natural person credit union to look to other sources to funding their needs. The NCUA is in a position to carefully monitor the operations of corporate credit unions. This would not be the case with other banking options for deposits outside of corporate credit unions.

I would appreciate your review of these concerns. The purpose of this regulation should be to protect the natural person credit union and the entire credit union system. As members of several successful corporate credit unions, I do not want to see the bad apples of the corporate credit union system ruin the game for all corporate credit unions. I hope that the NCUA is looking inward at itself during this process as well. It was the NCUA who allowed the large concentrations of similar type investments at U.S. Central that created the liquidity crisis when the mortgage market deteriorated.

Again, thank you for providing us with the opportunity to respond to the proposed regulation.

Sincerely,

Greg Olmsted, President

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