Family®
Federal Credit Union

February 19, 2010

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

Subject: Comments on Part 704 Corporate Credit Unions

Dear Ms. Rupp:

I'd like to take this opportunity to comment on the proposed Corporate CU Regulation. I can think of few things that would impact the credit union industry's ability to survive as much as a non-functional Corporate CU system. I am concerned that this proposal will limit Corporates in such a manner that they will be unable to run profitably or provide natural person credit unions with cost effective services – and Family 1 FCU is already struggling to support our current level of expense.

I feel many modifications will be necessary to come up with a plan that will preserve Corporate CUs. I hope you will reconsider the entire proposal rather than try to patch the current proposal that, I believe, will spell the demise of the Corporate CU, and possibly the entire credit union, system.

We have seen in our own credit union the effect of NCUA's attempt to avoid risk. These attempts have severely limited our ability to produce income, a situation that poses a much greater risk of failure. I believe the same efforts to avoid risk from the Corporate CUs will most likely guaranty the near-term failure of the entities in which NCUA is attempting to control risk.

We have, of course, heard arguments from NCUA, the CCUL, CUNA, and other credit unions about the shortcomings of the proposal. Below, I am attempting to address the arguments Family 1 FCU feels are the most vital to our survival.

If the proposal is left unchanged, there will be severe, and possibly unrecoverable, repercussions to Corporate credit unions, **which in turn would have harmful effects on the natural person credit unions that rely upon them.**

Due to a lack of sufficient retained earnings at most Corporates, and an inability to grow retained earnings at a rate required by the proposed rule, member credit unions will likely be asked to contribute approximately 4% of the Corporate credit union deposits as perpetual capital within

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12 months of the publication date of the final rule. In the recent Town hall meeting (Feb. 18), a participant stated that credit unions would not contribute such capital and Chairman Debbie Matz stated that should not be assumed. **It SHOULD**. Discussions with other CU CEOs have produced no mention of any credit union that would be willing to fund such capital and risk a repeat of recent losses. In fact, there will be a flight to safety from Corporate CUs which will greatly impair the Corporates' liquidity.

My recommendation is that NCUA allow sufficient time for credit unions to regain faith that deposits in the Corporates will be safe. That will take time and, as such, the time period currently required by the proposal will be completely insufficient.

I believe NCUA's assumption regarding a Corporate's ability to grow retained earnings under the proposed investment and ALM limitations are unrealistic. Again, I believe NCUA is setting Corporates up for failure.

NCUA assumes that 70% of Corporates' deposits will be comprised of certificates. With the limitations NCUA has proposed on Corporate certificates, what will be the incentive for credit unions to invest in their Corporate? I understand NCUA's desire to match liabilities and assets, but, the early withdrawal provision eliminates any advantage the Corporates have.

I agree with the CCUL's argument that the proposed model violates principles of concentration risk, represents too much exposure, and is far-removed from attainable, **real-world** results. Further, the model appears to provide little opportunity for diversification, which will make retained earnings growth that much more difficult to realize. It is apparent from these assumptions that NCUA is attempting to *eliminate* risk at the corporate level, as opposed to permitting corporate credit unions to *manage* risk. Such a business model is unreasonable and counterproductive and, ultimately, will be crippling to the corporate network. For example, without an ability to generate earnings from investment risk, Corporates will not be able to keep payment system fees down, forcing a move from a cooperative payment system pricing model to a market-based, for-profit model. This will have a pronounced effect on natural person credit unions, as they will be saddled with much higher fees, as well as the possibility of obtaining and maintaining new payment services relationships. Again, I make the point that, as the Corporates go, there go the natural person credit unions. **With this proposal, NCUA takes the risk of the losses associated with the demise of the Corporates coupled with the demise of most small credit unions.**

I can't begin to propose the appropriate mix of assets; Corporate structure is not an area of expertise that I can claim. However, I believe NCUA should provide independent, third-party "proof of concept" validation of the Agency's business model presented in this proposal or any alternative proposal. A proper assessment must do more than just "test the math." Assumptions and ultimate viability of the proposed business model need to be tested.

It appears that NCUA envisions the shrinking of Corporates' balance sheets. Such movement would not only represent a fundamental change to the corporate business model—a fact which lies unaddressed by the Agency in its proposed model and assumptions—but would also result in a shifting of the investment function to natural person credit unions. Obviously, Corporates possess far more in the way of experience, expertise, and resources (e.g., people and software) to manage this function than does the typical natural person credit union. Any such "managing down" of corporate balance sheets to the natural person credit union tier would introduce greater instability, risk, burden, and costs into the credit union system, and would pose ever greater risk and losses to the NCUSIF.

Given the severe risks posed to natural person credit unions and the share insurance fund, I believe that NCUA must consider the unintended consequences of pushing the investment function down to natural person credit unions that, for the most part, lack adequate expertise to safely manage investment portfolios.

I believe your average-life NEV testing provides for too narrow a tolerance. I feel that NCUA is attempting to manage credit unions in such a manner as to avoid losses suffered due to an unprecedented economic climate – thus *eliminating* risk rather than managing it

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As above, I believe NCUA should test its requirements for feasibility and sustainability considering how difficult it is going to be for the Corporates to operate while regaining the support/trust/faith of natural person credit unions.

If weighted average asset life includes loans, credit unions will not be able to rely on the Corporate for needed liquidity and loans at a reasonable rate.

It would be necessary to exclude loans from the calculation of weighted average life of the investment portfolio. After all, the original purpose of corporate credit unions was to enable financial intermediation between credit unions—not only their short term needs but also medium and long term needs.

NCUA must give priority to addressing legacy assets in Corporates. Announcing that plans for dealing with such assets are coming will never suffice. The manner in which NCUA handles these assets is pivotal to the success of Corporates. Without assurances of protection from such assets, the plan will be dead at arrival. Of course, toxic assets held in Corporate CUSOs would likewise need to be addressed.

With regard to Directors' qualifications, I believe people with valuable talents but no training as CEO, CFO or COO could receive the necessary training to make them assets to any Corporate Board. Limiting the pool of Directors to CEO, CFO, and COO also limits the Corporates' ability to benefit from all available resources. I also believe that a term limit of 6 years is insufficient to provide the necessary continuity of Board leadership.

I agree with the CCUL position with regard to consolidation of Corporates and their recommendation of assessing the value of a single corporate CU with multiple offices, possibly following the model for the FHLB.

The decisions NCUA makes regarding the structure of Corporate CUs could easily determine the future of the credit union industry. If the Corporates are so restricted that they are not able to operate profitably and efficiently, the lack of the services they currently provide could have a snowball effect on all credit unions, resulting in credit unions becoming the S&Ls of the 70s.

There are other issues but they pale when compared to the ones mentioned above. I repeat my request that the entire issue be examined afresh as opposed to patching a leaky vessel.

Sincerely,

Patricia White

Patricia White
President/CEO Family 1 FCU

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