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Whatcom Educational Credit Union

February 22, 2010

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

To whom it may concern:

I would like to take this opportunity to respond to Proposed Regulation for 12 CFR Part 704, which seeks to impose changes on the governance of operating Corporate credit unions. While recent history indicates the necessity for change, I have concern that this new regulation would negatively affect the Corporate system, compromising its viability to be profitable.

Natural person credit unions (NPCUs), such as Whatcom Educational Credit Union, would in turn feel a negative impact, since we would likely receive lower yields on Corporate deposits, a reduction in choices of loan products, increased fees associated with payment systems, and fewer competitive investment options. Facing these kinds of repercussions, NPCUs might have to resort to obtaining investment, liquidity and payment system options from profit-seeking entities. I do not see this as a positive development, and therefore, please take the following points into consideration.

The business model included in the proposed regulatory structure is not entirely accurate. It does not take into account the costs of raising additional capital or adjustments for inflation, creating an unrealistic representation of the potential profitability of a future Corporate credit union system. If such factors were recognized in the model, you would see the result of an operating loss, not a profit. I would advise that you take another look at the model and make proper adjustments to ensure it is truly viable.

The environment in which these proposed rule changes were issued in November of last year has been altered significantly in subsequent months. We were initially informed that the Corporates would likely retain mortgage-backed security holdings to maturity, despite the losses they had caused, with the intent of minimizing systemic loss. However, we learned in January that they were to be completely removed from Corporate balance sheets. How can we make sound decisions regarding the proposed rule changes when the context surrounding them is still in flux? The NCUA is extinguishing NPCU capital based on projected losses with the intent of protecting the insurance fund, but is it wise to take such an action before we understand how the securities are going to perform? Until actual cash-flow losses are proven, this extinguishment provision should not be considered.

In the Net Economic Value tests that would be applied to the Corporates under the proposed rule changes, the credit spreads would be utilized only with assets. Without applying them consistently across the entire balance sheet, NEV risk cannot be properly measured. In addition, a provision in the

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changes prohibits the use of most derivative instrument investments. Perhaps if the Corporates were using derivatives for speculative trading, this prohibition would be justified. Rather, they use them to effectively manage interest rate risk for both assets and liabilities. Therefore, it seems reasonable to conclude that the elimination of such investment options would escalate risk in the credit union system. The tests are simply too inflexible to foster a healthy business model; Corporates would not be able to produce enough interest margin to satisfy the proposed capital requirements. Floating rate investments would have to be treated as fixed rate in these stringent tests – does that really make sense? Despite the Corporates' recent difficulties, they do have the ability to protect themselves from risk. This fact should be recognized when designing the NEV tests and subsequently imposing restrictions and limitations based on the tests' results.

Another clause in the proposed rule would prevent a NPCU from withdrawing funds from a Corporate certificate prior to maturity. This change would simply push us to seek longer-term liquid instruments from entities beyond the Corporate system. I do not want to see this happen – Whatcom Educational Credit Union, along with most NPCUs, depends on the Corporate certificate market. Historically, the Corporates have actually ended up receiving slightly positive earnings due to hedging long-term certificates. This clause could easily stifle the Corporates' ability to fund our lines of credit as well as compromise overall liquidity. To be quite honest, I hope to see this part of the proposed rule completely eliminated.

I also do not favor the provision that limits the weighted average life (WAL) of the Corporates' investment portfolio to only two years or less. Longer-term loans would suffer from the negative WAL impact, prompting increased interest and fees for NPCUs in order to compensate. There would be no way around a reduction in the asset mix, inevitably stymieing any efforts to diversify the balance sheet. How would this serve the Corporates' principal purpose of providing cheap liquidity for its own credit union system? It wouldn't; in fact, we would likely be forced to entrust our liquidity to a competitor. I can't see how this would have a positive outcome for NPCUs, especially since Federal Home Loan Banks have also been putting additional restrictions on credit.

The proposed concentration limitation, which would allow the Corporates to hold just 25% or $5 million from a single obligor, is much too strict. It extends to limiting aggregate holdings in selected investments to only the lower of 100% of capital or 5% of assets as well. Such limitations would make it very difficult for Corporates to find reasonable rates for short-term liquidity investments, negatively impacting our overnight rates. Please consider revising this provision, as it holds too much harmful potential as it currently reads.

The provision that prohibits a Corporate from having a single member or entity comprise more than 10% of its moving daily average net assets also harbors potential negativity for NPCUs. It would reduce our options and compromise our short-term borrowing ability. The 10% limit could pressure a Corporate to assume unfavorable terms for price, maturity, and collateral, causing negative effects to NPCUs'

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earnings. It might be helpful to consider offsetting credit union deposits against borrowings, or to simply implement a higher borrowing limit.

In addition, I have concern that requiring the disclosure of senior executive officers' salaries would not result in a positive outcome. Isn't there a risk that exceptionally qualified professionals may view this as a hiring and retention detriment? Why is there a need to hold Corporates to the compensation disclosure standards of public institutions? I cannot see how such a provision would reduce a Corporate credit union's risk; therefore I believe the true intent behind it, as well as the provision itself, should be reevaluated.

I write to you today because the health of the credit union system is of the utmost importance to me. Thank you for your consideration of my concerns in regard to this proposed regulation.

Sincerely,

Wayne Langei

Wayne Langei
President/CEO
Whatcom Educational Credit Union

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