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

Dear Ms. Rupp:

Thank you for the opportunity to provide comments on the NCUA's proposed Regulation Part 704 concerning Corporate Credit Unions and the network structure.

Section 704.3 Corporate Credit Union Capital

704.3(c) Requirements for Perpetual Contributed Capital

Prohibition against conditioning membership on the purchase of permanent capital should remain in the regulation. Credit Unions should not be placed in a situation where they have to make a critical decision without the time and due diligence necessary. A minimum of twelve months should be provided to exercise orderly termination of services with a corporate.

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

The decision to exercise a call feature for a corporate's perpetual capital should remain with the issuing corporate credit union. Prior approval from the NCUA should not be required.

704.3(d) (4) (v) Individual Minimum Capital Requirements

The Director of the Office of Corporate Credit Unions (OCCU) can arbitrarily increase the capital requirement for a single corporate regardless of whether the corporate meets capital standards for designation at a certain level as defined in the regulations. This allows subjective judgment to be used and vests an excessive amount of power in the Director of the OCCU.

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

The Director of the OCCU can unilaterally require that certain capital accounts be discounted and not included in applicable capital rations. No one NCUA employee should have power to decide capital will not be included.

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Section 704.4 Prompt Corrective Action Corporate Structure

704.4(d) (3) Lowering the Capital Category

The Director of the OCCU should not be allowed to unilaterally change the capital category of a corporate credit union.

704.4(d) (3) (ii) Lowering the Capital Category Based on Ratings

The NCUA may lower a corporate's capital rating if any Corporate Risk Information System (CRIS) category is rated a 3 or worse. Given there are 12 separate components, it is likely at least one may be rated a 3 or worse. The Director of the OCCU should not be able to lower the capital category of any corporate any time.

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

This proposal transfers power from the NCUA Board to the Director of the OCCU.

704.4 (e) (5) Disapproval of a Capital Plan

This allows the Director of the OCCU to subject a corporate credit union to restrictions reserved for significantly undercapitalized corporate for an undue length of time.

704.4(k) (1) Payment of Dividends

This prevents a corporate deemed undercapitalized from paying dividends on capital accounts and will cause members to consider pulling capital when retention is vital for stability. Only those corporates significantly or critically undercapitalized should be precluded from paying dividends.

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

If a corporate is deemed undercapitalized, even by the Director of the OCCU, the NCUA has 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. These powers should only apply to significantly or critically undercapitalized corporate.

Section 704.8 Asset Liability Management

704.8(e) Cash Flow Mismatch Sensitivity Analysis

Section 704.8(e) states average life mismatch tests are designed to enhance the measurement of risks associated with credit spread widening. Not all securities are

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vulnerable. Government securities increase in value with the "flight to quality." This would force corporate to invest in short term securities with credit risk and eliminate longer average life government-backed securities with virtually no credit risk. A solution would be to require average life mismatch modeling on securities with credit risk weighting of 20% or less.

704.8(h) Two-Year Average Life

Securities such as SBA and FFELP student loans are highly liquid and typically have weighted average lives of greater than 2 years. These securities offer no credit risk, low liquidity risk and virtually no interest rate risk. An arbitrary limit on maximum weighted average lives will increase credit risk and liquidity risk. This limit will force credit unions to invest outside the corporate network.

704.8(k) Deposit Concentrations

The stated objective for limiting deposits from any one source to no more than 10% of a corporate's assets is to reduce risks that arise from relying on a single member. Limiting these deposits will force funds out of the corporate system, decreasing liquidity and penalize corporate that have acted responsibly for their members. Credit unions should have a choice of where they want to invest their funds. A solution would be to require deposits from one source to be limited to the greater of 10% of a corporate's assets or 100% of a corporate's assets that carry a risk weighting of 20% or less. This would ensure deposits are in high quality assets.

Prompt Corrective Action

707.4 Corporates should be required to disclose their capital category. Credit Union member/owners need to know the strength of individual corporates.

Corporate CUSOs

704.11(e) Permissible Activities - There is no phase in period for obtaining permission from the NCUA to continue operations and the NCUA will not have time to review all requests. Current limits on corporate CUSO loans and investments are sufficient. Separating services into CUSOs makes it easier to identify, monitor and control risks.

Appellate Process

Although appellate provisions are provided for in the regulation, the powers granted to the NCUA by the proposed regulation are broad and sweeping. The assurance that those powers will be held in check is not present.

Conclusion

This proposed regulation greatly impacts all natural person credit unions. The role of a corporate credit union to provide products and services to members will be severely limited by many of the proposed changes. Risks and costs would increase for credit unions if they must reach outside our network for services. While we must improve and strengthen the corporate credit union system, it is critical to provide a framework that will enable corporate credit unions to continue to serve members. Thank you for your consideration.

Kimberly Nichols

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