

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 comment on the proposed corporate credit union regulation.

704.3- Corporate Credit Union Capital

**704.3(c) Perpetual Contributed Capital-** This regulation can result in a natural person credit union being forced to purchase permanent capital and invest in risk capital deposits at a corporate credit union that may not be displaying the best stewardship of its members' funds. In a similar instance, the NCUA Board granted U.S. Central a waiver in December 2008 that immediately conditioned membership, and therefore access to payment systems, on the purchase of permanent capital.

The prohibition against conditioning membership and services on the purchase of permanent capital should remain in the regulation, and a member credit union should be provided a twelve months window of opportunity to terminate its services with the requiring corporate. This would further avoid a situation where a credit unions members would not have access to their payment systems.

**704.3(c)(3) Perpetual Contributed Capital Call Feature-** This section makes it impossible for a corporate to exercise the call feature for perpetual capital without preapproval from the NCUA, but this decision should remain with the issuing corporate. The NCUSIF would remain protected by the capital requirements outlined in the proposed regulation, therefore in requiring preapproval the NCUA is overreaching.

**704.3(d)(4)(v) Increased Individual Capital Requirement-** This section gives too much power to one employee, the Director of the Office of Corporate Credit Unions (OCCU). Essentially the Director of the OCCU can increase capital required for a corporate, and there is no appeals process.

**704.3(e)(3) Disallowing Capital from Inclusion in Ratios-** This regulation gives the Director of the OCCU the power to unilaterally require certain capital accounts to be discounted and not included in the applicable capital ratios. If a capital account meets the requirements in the regulation no NCUA employee should have the power to

unilaterally decide that the capital account will be eliminated from governing capital ratios.

#### 704.4- Prompt Corrective Action Corporate Structure

704.4(d)(3) **Lowering the Capital Category**- This proposed regulation would give too much power to one NCUA employee, the director of the OCCU, who would be able to force onerous restrictions upon an adequately capitalized corporate by changing the capital category of a corporate credit union.

704.4(d)(3)(ii) **Lowering the Capital Category Based on Ratings**- Once again the director of the OCCU would be given too much power with the authority to lower the capital category of any corporate at any time if any CRIS category is rated three or worse

704.4(d)(4) **Lowering the Capital Category for Good Cause**- In this section we see a power shift from the NCUA Board to the Director of the OCCU. With one individual holding this much power the boards of all corporates would effectively be employees of the Director of the OCCU.

704.4(k)(1) **Payment of Dividends**- This regulation prohibits an undercapitalized corporate from paying dividends on capital accounts, but this should only be applicable to corporate credit unions that are significantly or critically undercapitalized.

704.4(k)(2)(v) **Powers over Undercapitalized Corporates**- If a corporate is labeled as undercapitalized 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.

This section allows the Director of the OCCU to use these powers with corporates that are merely undercapitalized, but these powers are authorized by reference to 704.4(k)(3)(ii). That section alone is only applicable to corporates that are significantly or critically undercapitalized. Therefore the Director of the OCCU has been given a power that is too broad with his ability to lower individual capital categories, fire employees, and remove any board at any existing corporate for years to come.

704.4(k)(6)(ii)(C) **Charter or Bylaws for State Chartered Corporates**- By allowing the NCUA to inhibit a bylaw change for state chartered corporate credit unions, the power of state regulators would be relinquished.

#### 704.8- Asset Liability Management

704.8(e) **Average Life Mismatch Modeling**- If the proposed regulation goes into effect, it 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 WALs. A better solution would require the average life mismatch modeling only on the book of business that contains securities with credit risk. For instance, securities that have a risk weighting of twenty percent or less should be excluded from the average life mismatch tests, otherwise it would create a situation where credit risk will increase and the effects of credit spread widening will be worsened.

**704.8(h) Two-Year Average Life-** Instead of reducing credit risk and liquidity risk, the proposed regulation would increase these risks by placing an arbitrary limit of two years on the maximum WAL. Many securities that are appropriate for a corporate credit union to own have a weighted average life that is greater than two years.

**704.8(k) Deposit Concentration-** Unfortunately, this proposed regulation would force funds out of the credit union system, punish corporates that acted responsibly with their members money, and restrict natural person credit unions from investing in institutions they deem appropriate.

A natural person credit union can invest an unlimited amount of funds in a bank if they have conducted proper due diligence, so why should they be restricted from investing the same funds in a corporate credit union if they conduct the same due diligence.

Many natural person credit unions are glad their money was invested in certain corporates. If the regulation had been in place before this financial crisis began those credit unions could have lost money unnecessarily because they would have been forced to make deposits into other institutions.

If this restriction is enacted, most likely natural person credit unions will withdraw funds from the system, which decreases liquidity in the network and could result in restrictions natural person credit unions place on their members. For the solvent corporates, this regulation would force a large refund of deposits back to their members, and therefore penalize both the corporate and their members. A credit union should have the right to choose which financial institution it places its money and trust.

I recommend that deposits from one source be limited to greater than ten percent of a corporate's assets, or one hundred percent of a corporate's assets that carry a risk weighted average of twenty percent or less. This would ensure that deposit concentrations are invested only in high quality, very liquid assets.

#### Prompt Corrective Action

**707.4 Prompt Corrective Action-** Corporate credit unions should be required to reveal their capital category as an example of transparency. By prohibiting that

information from individual corporates and their respective member/owners.

### Conclusion

As written, the proposed regulation would give the Director of the OCCU an abundance of power and effectuate a power grab by the federal government. It would render the elected boards of all corporates ineffective and treat them as subservient to NCUA employees. It would also cost add the powers now reserved for state regulatory agencies, reduce the liquidity in the credit union system, and increase credit risk instead of reducing it.

~~As you know, the total system credit union did not cause the problems being experienced by some corporates, so don't take away their ability to manage their own corporate credit unions.~~

Jennifer Singleton