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February 23, 2010

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 NCUA's proposed Regulation Part 704 concerning the role and structure of the Corporate Credit Union Network. While we appreciate the need for change and understand the premise for NCUA to take action, we are concerned parts of the proposed regulation fundamentally conflict with the following purposes for which the corporate credit unions were created:

- To accumulate and prudently manage the liquidity of its member credit unions through interlending and investment services;
- To act as an intermediary for credit union funds between members and other corporate credit unions;
- To obtain liquid funds from other credit union organizations, financial intermediaries, and other sources;
- To foster and promote in cooperation with other state, regional, and national corporate credit unions and credit union organizations or associations the economic security, growth and development of member credit unions; and
- To perform such other financial services of benefit to its members

The proposed limitations on liquidity and investments will restrict corporate credit unions in such a way that they will no longer be competitive and force its member credit unions to seek alternatives that are more costly and unreliable.

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704.3(c) Perpetual Contributed Capital

The prohibition against conditioning membership/services on the purchase of permanent capital should remain in the regulation. At a minimum, a member credit union should be provided a twelve-month window to exercise an orderly termination of its services with the requiring corporate. This is necessary to ensure that the credit union's members are not immediately placed in a position whereby their access to payment systems is eliminated.

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

This section allows for "subjective judgment" of agency experience in determining an individual corporate's capital requirement. The method of determining a corporate's capital requirement should be consistent among all corporates. Allowing for the subjective judgment of agency experience eliminates consistency and gives an excessive amount of power to the Director of the Office of Corporate Credit Unions (OCCU) to change capital standards and levels at anytime without recourse and without an appeals process.

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

If a corporate's capital meets the definitions contained within the regulation, no NCUA employee should be allowed the power to unilaterally decide that the capital account will not be included in the governing capital ratios.

704.4(d)(3) Lowering the Capital Category

The proposed regulation gives NCUA an excessive amount of power and ability to change the capital category of a corporate credit union. This could result in an adequately capitalized corporate being forced to comply based on the subjective judgment of an NCUA employee.

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

This section simply transfers power from the NCUA Board to the Director of the OCCU. With this degree of power concentrated in one individual, the respective boards of all corporates will effectively be employees of the Director of the OCCU.

704.4(k)(1) Payment of Dividends

Restrictions on dividend payments on capital accounts should only be applicable to "significantly" or "critically" undercapitalized corporate credit unions.

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

If a corporate is deemed "significantly" or "critically" undercapitalized (even if the Director of OCCU lowers the category from adequately capitalized), the NCUA will have the authority to take actions that include but are not limited 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

Because the regulation allows for arbitrary modification of an individual corporate's capital requirements based on the subjective judgment of an NCUA employee, the Director of the OCCU can fire any employee and/or remove any board at any existing corporate. And he will be able to do so at any time he chooses for years to come.

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

This section usurps the power of state regulators by allowing NCUA to preclude a bylaw change for state chartered corporates.

704.8(e) Average life mismatch modeling

Recent history has demonstrated that certain securities were vulnerable to such credit spread widening, other securities were not. Specifically, government-backed securities actually increased in value as funds moved from risky assets into safer assets via a flight to quality.

The proposed regulation will 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 solution is to require the average life mismatch modeling only on the book of business that contains securities with credit risk. Securities having a risk weighting of 20 percent or less should be excluded from the average life mismatch tests. Otherwise, to do so is simply creating a situation where credit risk will increase and the effects of credit spread widening will worsen.

704.8(h) Two-year average life

Assigning an arbitrary limit on the maximum WAL of the investment portfolio, the proposed regulation will actually increase credit risk and liquidity risk on the balance sheet as opposed to reducing them.

704.8(k) Deposit Concentrations

Limiting funds from any one source to no more than ten percent of a corporate's assets as stated in the purposed regulation will:

- Force funds out of the credit union system;
- Penalize corporates that acted responsibly with their members money
- Deny natural-person credit unions their ability to invest in institutions they deem appropriate

By limiting the amount of funds a credit union places in a single corporate, the proposed regulation forces credit unions to invest funds in different corporate, causing the natural-person credit unions to have unnecessary exposure to the investment practices of many institutions. More likely, if this limit is imposed, the scenario would be the natural-person credit unions withdrawing funds from the system. This not only decreases the liquidity in the network (possibly leading to the forced sale of distressed securities currently held by U.S. Central and other corporates), the overall decreased liquidity in the system may result in the restriction of credit some natural-person credit unions would otherwise provide to their own members.

Also, by forcing the solvent corporates to refund a large amount of their deposits back to the investing natural-person credit union members, the proposed ten percent limitation is penalizing the solvent corporates and their members.

A natural-person credit union can choose to invest an unlimited amount of funds in a bank if they conduct proper due diligence. Why, then, should they be precluded from investing the same funds in another credit union (corporate or otherwise) if they conduct the same due diligence?

We recommend that 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.

Corporate credit unions are critical in providing a supportive role in helping credit unions to survive and prosper. The corporate credit union network not only provides liquidity and investment services, but also provides a multitude of cost effective services and expertise that is not readily available to the natural person credit unions because we are a cooperative and work for the benefit of the whole. Also, remember the lessons learned from CapCorp, react with caution, and remember there is no way to regulate all risk out of the corporate network. We need a regulation that allows us to survive this crisis and makes the credit union network stronger.

Sincerely,

Tommy Cobb
CEO
Tuscaloosa Credit Union