KANSAS BLUE CROSS BLUE SHIELD
Credit Union
your money • your credit union

February 24, 2010

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

RE: Proposed Regulation 12 CFR Part 704

Dear Ms Rupp:

I appreciate the opportunity to provide input to the NCUA Board regarding the proposed revisions to the regulations that govern corporate credit unions. Although the proposed regulation is directed at the nation's corporate credit unions, this regulation will affect almost all natural person credit unions. Kansas Blue Cross Blue Shield Credit Union located in Topeka, Kansas, is a member of Kansas Corporate Credit Union. In the state of Kansas, all credit unions have a relationship with Kansas Corporate and they are viewed as one of our critical strategic partners. As a member- owner of Kansas Corporate, I want to comment on a proposed regulation that will ultimately affect my credit union and the members we serve.

It is my opinion that some of the proposed revisions will have a direct impact to our Credit Union and, in turn, will impact my members. There are sections of the proposed rule that if approved, will force my credit union to seek alternatives, which could prove to be more costly and certainly more unreliable, than utilizing the products and services of Kansas Corporate. Kansas Corporate has served their members for almost sixty years, providing quality products and services which have allowed my credit union to not have to utilize the entities that we compete against in the marketplace.

In reviewing the proposed regulation, I would like to comment on several issues. The proposed regulation requires a corporate to meet a 0.45% retained earnings ratio by the end of three years; 1.00% after six years; and 2.00% after ten years. The new 4% leverage ratio must be met within 12-months after implementation of the regulation. Only retained earnings and perpetual contributed capital can count towards meeting the leverage ratio. In the current economic and interest rate environment, it seems unrealistic for the retained earnings portion of the leverage ratio to be met. The majority of the corporate credit unions have zero or minimal retained earnings due to the depletion of their capital investments at U.S. Central or losses attributed to their own investment holdings. As the majority of net interest income for the corporate credit union is generated from investments and not loans, this makes the periodic benchmark difficult to achieve. Our board would be hesitant to recapitalize the corporate in such a short period of time unless specific investment risks would be imposed on limiting the amounts

679

P.O. Box 1975 • Topeka, KS 66601-1975 • (785) 291-8774 • Fax (785) 291-6398

that a corporate could invest in higher risk investments by a proportionate amount such as our board has limited the total amount of real estate loans that we can make based on a percentage of our assets. Additional time to achieve the periodic benchmarks for the retained earnings portion of the leverage ratio needs to be considered. I would recommend that the leverage ratio requirement become effective three years after the regulation is approved instead of one year. And the periodic benchmark to achieve the retained earnings portion of the leverage ratio changed to five, seven and twelve years.

The proposed regulation does not address replenishment of member contributed capital. The NCUA should allow in the regulation a mechanism where NCUA and corporate credit unions can return capital back to existing capital holders if actual losses on investments in which OTTI has been taken are less than projected and a corporate meets all regulatory capital standards. NCUA should allow for the same accounting treatment as national standards and not permanently deplete credit union capital based upon projections.

Kansas Corporate has always had good representation on the board of directors from credit union officers representing all asset levels. The proposed term limits for directors of six consecutive years is too restrictive. A corporate credit union's operations are significantly different than a natural person credit union and it takes time to thoroughly understand. In addition, Kansas Corporate Credit Union, which represents 120 member credit unions, has a smaller pool of potential volunteers due to the size of our state. I believe that the term limit should be increased to twelve consecutive years rather than six or completely eliminated.

The final section I would like to comment on is the penalty for early withdrawal of certificates. The proposed regulation eliminates the ability for a corporate to redeem an outstanding certificate at a premium price. If we can sell a marketable security at a gain but not a corporate certificate it would eliminate the current attractiveness of a corporate certificate. This will place my corporate credit union at a competitive disadvantage as well as reduce their longer term deposits. I believe that the current regulation should stay in place and if necessary, define a mechanism for how a gain should be paid.

I appreciate the opportunity to comment on the proposed revisions to regulation 704. Kansas Blue Cross Blue Shield Credit Union views Kansas Corporate Credit Union as a strategic business partner. As one of the 7,700 credit unions which serve over 91.3 million members, it is important that we get to have a voice in the direction of the corporate system which will ultimately affect the natural person credit unions. While I believe it is important to strengthen the corporate network, I want to see my corporate be given every opportunity to continue to provide valuable products and services to my credit union.

Thank you for the opportunity to comment on the proposed revisions to regulation 704.

Sincerely,
Pete DiDio, Manager Pete DiDio

Kansas Blue Cross Blue Shield Credit Union

680