



February 24, 2010

Board of Directors  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-3428

Dear Members of the Board:

Management at K.C. Police Credit Union (KCPCU) appreciates the opportunity to review and comment on the proposed revisions to Part 704 as it relates the operation of corporate credit unions. We agree wholeheartedly with the overall need to implement more stringent regulatory guidelines for corporate credit unions and to prevent further losses to the credit union industry as a whole.

K.C. Police Credit Union has relied upon Missouri Corporate (MCCU) for settlement, lines of credit and payment processing for many years. We have been very pleased with the level of service we have received from MCCU and the pricing they have been able to offer us. We firmly believe that our relationship with MCCU has been crucial to our financial success. If we are forced to go to market for alternative service providers, we will undoubtedly face substantial operational and financial burdens. Consequently, we are very concerned about our Corporate's ability to survive under the currently proposed regulatory framework – and ultimately, what that will mean to our own survival.

Following are our primary areas of concern:

**Section 704.3**

We firmly agree with the need for more stringent capital requirements and the proposed creation of a PCA system for CCUs. However, we do not believe the currently proposed requirements (Section 704.3) are realistic. The example investment portfolio provided to illustrate reaching the necessary yield needed to meet the proposed capital requirement relies very heavily on private-label student loans. To our knowledge, these investments are thinly traded, risky and are not yielding the 200 basis points over LIBOR that the model suggests.

We would prefer to see the timeframes lengthened to allow CCUs more time to reach the capital and retained earnings requirements.



**Section 704.8c**

NPCUs have many investment options available to them, and it is our belief that the proposed penalty for early certificate withdrawal would put CCU's at a competitive disadvantage, and would likely inhibit KCPCU from purchasing certificates from MCCU in future. We suggest that this paragraph be stricken.

**Section 704.8e/h**

A two year weighted average asset life for CCUs may reduce risk, but it also limits the CCU's ability to earn a spread on investments, as does imposing stricter mismatch limits. Missouri Corporate has historically maintained an asset/liability mismatch and a weighted average asset life much less than the proposed regulation would require. Our concern is that the regulation will put a great deal of pressure on our Corporate CU to take on *much more* risk than it typically does in order to drive up earnings and meet the new capital and retained earnings requirements. Lengthening the timeframes required in order to meet those requirements would also alleviate our concerns about these paragraphs.

**Consolidation of Corporate Credit Unions (CCUs)**

We fail to see why the NCUA insists upon consolidation given the fact that it is the largest of the CCUs that have failed the most spectacularly over the past 18 months. Since nearly all of the CCUs are severely undercapitalized at this time, it is difficult how merging a number of smaller undercapitalized CCUs into one larger undercapitalized CCU will strengthen the overall system. In short, creating a system comprised of a small number of large (i.e. "too large to fail") CCUs does not seem advisable. It appears that the intent of the proposed rule changes is to set the bar so high that all, or nearly all, CCUs will wind up in PCA status after the first year, thus giving the NCUA wide latitude to determine who survives and who doesn't. We would much prefer that required timeframes be lengthened so that the market can make that determination.

Thank you for your consideration of our feedback on this proposed regulatory change and for your efforts to strengthen the credit union movement. Your efforts are key to our success and that of our 8,000 member police officers and their families.

Sincerely,



Aaron L. Goff  
President/CEO