

February 25, 2010

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Mary Rupp
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Dear Ms. Rupp,

In reviewing the NCUA Regulation 704 there are a few issues that I believe should be eliminated or revised. As a volunteer at a Natural Person Credit Union, I appreciate the opportunity to comment and make suggestions on regulations proposed by the NCUA. This past year has not only been challenging fiscally, but the legislative changes have made the year intellectually challenging as well. While I understand that my recommendations may not impact the decisions made by NCUA, I hope that some consideration will be made as to how small to medium size credit unions will operate without a corporate system. I believe the realities of a non-corporate system are upon us based on the current Regulation 704's restraints.

In Section IV (Concentration limits), I agree that limits should be in place and that a conservative approach is best. I also believe in the old saying, "diversify, diversify, diversify." However, in limiting the Corporates single/obligor issuer, it exposes them to the possibility of poor credit quality. The further they have to spread their holdings, the more likely they are to encounter other institutions without the credit worthiness that is needed. Limits are fine, as long as they are restrictive and not prohibitive. This particular piece of the legislation is prohibitive and should be revised to a more appropriate level that allows the Corporates to maintain the credit quality needed to serve NPCs.

In Section V (Asset Liability Management), the spread between the mismatched assets and liabilities is prohibitive. While I understand that the biggest issue with the Corporate failures has been credit risk, the reality is that this particular piece of the legislation limits interest rate risk. In limiting interest rate risk, you force a Corporate to lean towards credit risk, as reinvestment risk is not something that can be harnessed in any capacity. As an NPC and as an investor in this current market, I believe that interest rate risk is much more predictable and easily controlled than credit risk. With interest rate risk, if a Corporate is monitoring and analyzing its' ALM reports correctly, changes can be made to mitigate upcoming interest rate risk. However, credit risk is something that cannot be mitigated until after it's already begun to harm the portfolio. In looking back over the last two years, no one could predict that housing prices would plummet as they did (credit risk), but we could have seen that interest rates were going to be stagnant (interest rate risk) as the Fed all but told us they wouldn't be changing rates for any reason any time soon. I believe this mismatch of 3 months in the ALM portion of this regulation should be eliminated. It should be at the discretion of the management which has been put in place and is overseen by NCUA examiners who have been well trained in risk management. There are plenty of schools in the US that have masters and doctoral programs in risk

management/mitigation so, instead of having such stringent rules, the NCUA should have the trained professionals on staff to properly assess these issues.

In Section I (Capital), I appreciate that the NCUA wants to insure that Corporate CUs have enough capital to sustain business models through up and down markets, but the reality is that meeting the time frame for capital requirements creates a conundrum for NPCs. For a Corporate CU to obtain the capital needed to stay out from under PCA, the Corporate would have to refrain from paying dividends on new capital and have lower than market dividends on all other holdings. If that's the case, why would I as an NPC want to help recapitalize said Corporate? Also, why wouldn't I look elsewhere for short term investment options since the rate of return would be higher without any more risk to my portfolio? It seems that if a Corporate wanted to meet the requirements and still pay some form of dividend on the capital, the Corporate would be forced to decrease the asset side of the balance sheet. While this is a noble endeavor, the likelihood of being able to unload securities currently on their books in this environment leads me to conclude that further losses to the CCU would occur, and therefore, further impair what little of my previous capital is still at the Corporate. If as an NPC I will be contributing to the Corporate Stabilization Plan for seven years (as previously disclosed by the NCUA), my Corporate should be given that same amount of time to meet the capital requirements without PCA issues. However, this does not negate the need for examiner oversight. The Corporate system should be subject to stringent examination on a yearly basis by well trained, educated individuals who understand the corporate system and its challenges. I believe that if NCUA had such individuals at US Central and WesCorp, some of the losses seen over this past year could have been avoided. The realities of the last two years point to either 1) the NCUA examiners were unknowledgeable and ill-prepared or 2) they were knowledgeable but overlooked what was going on at these two Corporates. Either way, NCUA examiners are accountable for not doing their jobs, and this and this should not be tolerated on any level at the NCUA. In addition, according to GAAP, Corporate capital does not have to be permanently depleted. I find it highly hypocritical that the NCUA assessed our NCUSIF deposit, re-instated it through income and now tells the Corporate system that they aren't allowed to do the exact same thing. There are enough mathematicians in the Credit Union Movement that a model for capital recapture could be produced and approved by the NCUA. Once this model is in place, each Corporate CU could decide if and when capital could be recaptured through a dividend system.

In Section VI (Liquidity Management), there is one major problem that should be eliminated entirely. With borrowing restricted for liquidity purposes only, it means that as the NPCs expand and need money for new land, buildings, etc, we will be forced to borrow money from other institutions instead of turning to our Corporate. To me, this is in direct conflict with the purpose of a Corporate which is to provide a place for NPCs to invest, borrow and generally do our necessary financial transactions. This particular piece of the legislation makes no business sense and is extremely prohibitive for NPCs not just for Corporate CUs. If Corporate CUs could make loans to the NPCs, it would give an opportunity for income that could then be turned into the much needed retained earnings. Deleting this piece of the legislation would help the capital requirements to be met in the allotted times set out in Section I. As an NPC who needs borrowing capacity from time to time, it's imperative that Corporate CU lending be available in any and all amounts and timeframes that NPCs need in order to continue normal business operations.

In Section VIII (Corporate Governance/Golden Parachutes), the limit of six year terms is too short. The term limit should be 10 years. Six years does not take a credit union through an entire economic cycle which has been shown to be 8-12 years. Therefore, anyone on a

Corporate Board should be allowed to see the good and bad of how economic cycles impact the Corporate CU. Also, extending the term to the NPC and not the individual should be eliminated.

In Section II (Prompt Corrective Action), there is too much leniency given to the NCUA. In the last few years, the NCUA has failed to properly regulate/examine Corporate Credit Unions such as WesCorp and US Central. Therefore, the NCUA should have strict guidelines that govern what can and cannot set PCA in motion and what can and cannot be done once a Corporate is under PCA. Leniency is not seen in this piece of legislation anywhere but in reference to how the NCUA should be allowed to operate. As an NPC that has paid a small fortune to bailout US Central and WesCorp (where the NCUA had a perpetual presence), I would prefer to see some restrictions on NCUA policies and procedures instead of the “free hand” that got the system into this mess in the first place.

In Section VII (Corporate CUSOs) I do not understand why there is no “grandfather” clause here. Obviously CUSOs currently in business are needed institutions, and business should not be disrupted as Corporate CUs begin to break down these CUSOs to comply with this regulation. I also do not think the NCUA should tell NPCs (through Corporates) what CUSOs we do and don't need. If a Corporate CU has members requesting services that require a separate entity to be formed, notification to NCUA that said entity is being formed and for what reason is information enough for the NCUA. In researching CUSOs, the information disseminated to the NPC “public” is enough for us to make well-informed decisions as to whether or not to invest in or use the services of that CUSO. NCUA should have no authority to “approve” services needed and requested by NPCs.

I appreciate the opportunity to share the above thoughts in hopes that the NCUA will see that the Natural Person Credit Unions agree that the Corporate system is broken. The Corporate system has merit, but the solutions presented in Regulation 704 require major changes prior to implementation to ensure the viability of Corporate Credit Unions going forward.

Sincerely,

Margie Starnes