

February 26, 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:

On behalf of the San Bernardino School Employees Federal Credit Union (SBSEFCU), I appreciate the opportunity to comment on NCUA's proposed amendments to Part 704. Clearly as the rule is written today, there would be significant changes to corporate credit union capital, investments, asset-liability management, governance, and credit union service organization (CUSO) actions.

Consideration given to the vast amount of time that the NCUA Board and staff have devoted to prepare the revised rule is a true measure of optimism to sustain the future success of the corporate system.

Given the magnitude of change this rule will bring as it is written today, we should avoid any form of capricious action to ensure that the corporate system will continue. It is my hope, and I am sure I speak for my colleagues as well, that NCUA will modify the rule and allow for another 90-day comment period.

Together we need to unite and construct an amended rule that will rebuild the trust of Board of Directors, CEO's, and most importantly produce an outcome that will signify financial strength, hope, and trust to the entire credit union membership.

The following comments address the concerns of SBSEFCU:

- **Capital Ratio Attainment:**
The proposed one-year window required by the proposal to attain the risk-based capital ratios will require corporates to bring in new capital or convert existing

MCA to the new PCC during a time when significant issues remain unresolved such as legacy assets. Most corporates are experiencing insufficient retained earnings and an inability to grow retained earnings at the rate required by the proposed rule. I would recommend that NCUA consider three years to attain the risk-based capital ratios.

▪ **Retained Earnings Growth Assumptions:**

The assumptions for the retained earnings growth model signals that the goal is to eliminate risk at the corporate level, rather than allowing the corporate credit unions to manage risk. There is an enormous concern that the repercussions will ultimately disable the corporate network by preventing corporates from the ability to generate earnings from investment risk therefore causing corporates to increase fees for other services.

▪ **NEV Sensitivity Analyses**

The proposed limitations placed upon a corporate through various NEV tests do not allow the corporate to generate a sufficient interest margin to build retained earnings to meet your proposed capital requirements. I would suggest modifying the rule to allow WesCorp to make sufficient income from the balance sheet to grow and invest in innovation for the benefit of all its member credit unions, while exercising an acceptable level of credit and interest rate risk.

▪ **Weighted Average Asset Life**

WesCorp provides liquidity for both short and long-term needs. I understand that the limitations placed on asset maturities or average life limitations may severely impact the ability to obtain term liquidity. This change will encourage credit unions to seek other resources to meet their liquidity needs.

▪ **Legacy Assets in Corporate Credit Unions**

The proposed rule does not address legacy assets. Investment securities' remaining on corporates books is vital to realizing any lasting, consequential changes to the corporate system. These assets by some estimates are believed to represent as much as \$30 billion in eventual losses, or one-third of all natural person credit union net worth and continue to create instability in the network, and serve as a major disincentive to credit unions providing any future capital contributions. I think the sentiment among most, if not all, no credit union will invest unless the toxic assets are segregated so that new capital is not at risk. We believe that failure to address this issue invites the weakening of even current stable corporates, and would serve to negate the positive changes that NCUA and credit unions would like to see in the corporate system.

Disclosure Executive and Director Compensation

Given the size and complexity of some corporates, I can understand why they need more vice presidents to operate efficiently than I need at my credit union. I understand that the salaries of "senior executives" should be available to members, but only "senior executives". I would define a "senior executive" as any officer reporting directly to the Chief Executive Officer and exclude vice presidents not reporting to the CEO. This would be in line with current practices within other financial institutions. I could see that this rule might make it very difficult to recruit externally from experienced and qualified individuals from non-credit union financial institutions where the title of "vice president" definitely does not denote a "senior executive" level individual. The rule should address disclosure of executive and director compensation for the President and CEO, the principal financial officer and the 3 most highly compensated executive officers. Please consider revising the rule to accommodate these concerns; if we are going to have corporates, we would like the competitive flexibility to attract and retain the caliber of staff necessary to manage the aggregated risk in the credit union system.

Qualifications of Directors

Qualifications for directorship of a corporate as written in the proposal suggest that all candidates must currently hold the equivalent of a CEO, CFO, or COO position at the member institution. Please reconsider that a job title does not necessarily provide the qualification to fulfill the role. Modifications to the rule should include specific knowledge and training is required to fulfill the role initially and to adhere to ongoing annual training.

Concentration Limits

Under the current proposals for concentration limits, WesCorp will be severely challenged to invest short-term liquidity at reasonable rates. This will have the effect of reducing the overnight rates my credit union receives from WesCorp. I respectfully recommend a number of revisions as follows:

- Please change the definition of deposits in 704.6 (d) to include Federal Funds, or include Federal Funds transactions in the exemption from sector concentration limits.
- Please change 704.6 (c) to allow a larger single obligor limit of 200% of capital on money market transactions with a term of 90-days or less.
- An alternative solution might be to specifically allow a single obligor limit of 200% of capital for Federal Funds transactions sold to other depository institutions.

Corporate Credit Union Service Organizations

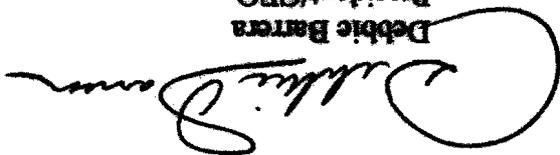
As the revised rule is written today, it is not clear as to what will be permissible in the final rule. I am concerned that, in its current wording, the proposed rule will

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make it extremely difficult for WesCorp to find qualified CUSO partners with whom to offer credit unions the competitive products and services they need.

In closing, I would like to thank you and the NCUA Board of Directors for the opportunity to comment. All of the comments provided in this letter are major concerns with the proposed rule. I hope that my comments and the many comments of my colleagues will initiate reconsideration to the proposed rule. I believe many credit union leaders want to see a restructure that will provide a lasting successful future for the corporate system. I trust that the NCUA Board of Directors will consider another 90-day comment period to incorporate changes to the revised rule.

Sincerely,



Debbie Barrera
President/CBO

San Bernardino School Employees Federal Credit Union