DAYAIR
CREDIT UNION
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February 28, 2010

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

Re: Proposed Regulation 12 CFR Part 704

Dear Ms. Rupp,

Day Air Credit Union is a $200 million natural person credit union in Dayton, Ohio serving over 25,000 members. I appreciate the opportunity to comment on the proposed regulations concerning Corporate Credit Unions (CCUs) on its behalf as Day Air utilizes a corporate credit union (Corporate One Federal Credit Union) for many of its settlement, liquidity, payment systems and investment needs. Clearly the need for regulatory reform of CCUs exists. Ultimately, the proposed regulation will greatly impact natural person credit unions (NPCUs), most of whom have lost considerable money due to CCU failures.

I have read the 253 page proposed regulations and although there is much merit to many of the changes in the proposal, I'd like to comment on several areas of importance to Day Air (and other NPCUs) as well as comment on several miscellaneous components of the proposal.

Public Determination of Cause of Past Failure

Much more transparency is needed in determining the cause of the present situation. With a reported $6 billion in realized losses and $30 billion in unrealized losses, there must be a thorough evaluation of what went wrong. Losses of this magnitude are far greater than ever experienced in the history of the credit union movement. It seems almost counter-productive to issue new regulations without first performing a careful, independent assessment of the causes of this systemic failure. A thorough and complete public examination of all the factors leading to the failure of the CCU system is essential to prevent any re-occurrence. Many if not most NPCUs will be reluctant to recapitalize the CCU system without a full understanding of all that led to the failures and assurance that all those risks are adequately mitigated. NCUA should hold public hearings and release all relevant documents that may lead to a greater understanding by NPCUs of the causes of the failures.

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Legacy Assets

The issue of legacy assets of the CCUs in conservatorship (and those that are not) is inadequately addressed in the proposal. If the possibility exists that any future recapitalization of the CCU system could be offset by additional OTTI impairment of legacy assets, NPCUs will be reluctant to add any capital.

Alternative Structure Possibilities

As a member of the Federal Home Loan Bank of Cincinnati, Day Air has witnessed excellent performance of the FHLB system. Admittedly some FHLB banks have not performed as well as Cincinnati, but some adaptation of the FHLB system into the CCU system could work well. If CCUs could obtain funding through implicit government guaranteed debt, CCUs would have access to that low cost funding and be less reliant on overnight NPCU deposits. With NPCUs possibly reluctant to recapitalize the CCU system, CCUs may face liquidity pressures that could be alleviated by obtaining funding through government backed bond offerings.

Risk Based Capital

It is clear that the three tier corporate system was inadequately capitalized. The top tier (US Central) failed and the majority of the middle tier CCUs saw significant impairment of capital. All losses rolled downhill and will be borne by NPCUs. Risk based capital requirements should be included in the proposal and the rules should clearly set forth the rights of member capital in the event of unrealized losses.

Credit Quality Evaluation

The proposal should eliminate reference to Nationally Recognized Statistical Rating Organizations (NRSROs). Reliance on the ratings agencies as opposed to thorough independent evaluation of the underlying credit risks inherent in the securities purchased could well have contributed to the systemic risk that was experienced. Rather than rely on the dubious evaluations of the ratings agencies, CCUs should be required to perform their own analysis of the underlying credits of a security.

Governance

The intent of the proposed regulation is recognized, but I philosophically oppose government mandate of term limits, especially to the extent that such regulatory limitations may trickle down to NPCUs. If term limits remains in the final regulation, the term should be longer than six years. Also, although it is reasonable and proper for the majority of Board seats for any CCU to be filled by representatives of NPCUs within its membership, Board seats should be set aside for one or more external directors with appropriately defined capital markets expertise. Finally, disclosure of executive compensation should not be more restrictive than that required by most NPCUs via annual IRS Form 990 filings.

Examination

NCUA should ensure that a high level of examiner expertise will be obtained to ensure that CCUs are adequately supervised. It remains puzzling how US Central could fail with examiners onsite on a daily basis.

Miscellaneous Comments

Paragraph 704.6(c & d): Adjust concentration limits to allow a CCU to invest short term liquidity at reasonable rates.

Paragraph 704.8(f): A 50% slowdown of prepayment speeds is unrealistic and should be lowered.

Paragraph 704.8(h): The two year weighted average life requirement is too restrictive. Without the ability to go longer on the yield curve, CCUs will not be able to generate adequate income to sustain their financial model.

Paragraph 704.11: The proposed rule should be revised to provide clearer definition as to what will ultimately be permissible. Without such revision, many providers will force a CCU to sell its minority stake in a CUSO rather than allow NCUA unfettered access to its books.

The above areas address my concerns with the proposed changes to CCU regulations. I respectfully request that NCUA reconsider the proposed regulation in light of the above comments and offer another 90 day comment period to allow for adequate evaluation and public comment on the revisions.

Sincerely,

William J. Burke
President
Day Air Credit Union, Inc.

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