



March 1, 2010

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

Dear Ms. Rupp:

I would like to take this opportunity to comment upon certain of the proposed changes to 12 CFR Part 704 for corporate credit unions.

Corporate credit unions are integral business partners with natural person credit unions. As not for profit financial cooperatives owned by their members, they too provide products and services to natural person credit unions generally at a lower cost and with better service than alternative for profit providers.

While I commend the agency for establishing qualification criteria to enable an individual to sit on a corporate credit union board, establishing such criteria by position (Chief Executive Officer, Chief Financial Officer or Chief Operating Officer) is somewhat misplaced. Having previously sat on a corporate credit union board, I have firsthand knowledge that the above titles do not in and of themselves demonstrate a basic level of competency. There should be minimum expertise and experience requirements, along with continuing education requirements, to ensure that those sitting on a corporate credit union board can adequately discharge their fiduciary responsibility to the membership.

It is clear from the proposed regulations that NCUA intends for corporate credit unions to become recapitalized, either through member capital shares or retained earnings. I believe it will be extremely challenging, if not impractical, to expect the boards of natural person credit unions to place additional capital at risk with corporate credit unions after the assessments for the corporate stabilization plan and losses incurred on previous member capital with corporate credit unions. Further affecting the potential for recapitalizing corporate credit unions is the issue of "legacy" assets.

NCUA Comment Letter

March 1, 2010

Page 2

The losses on "legacy" assets (primarily private label asset backed securities) held by corporate credit unions were originally projected to be as high as \$11 billion, which has since been revised to a range of \$4-\$6 billion. There are two issues of concern related to these assets:

- Should ultimate losses be greater than the amounts reserved for such losses, will additional capital placed at risk in corporate credit unions be at risk for such legacy losses?
- Should ultimate losses be lower than the amounts reserved for such losses, will the original shareholders have a portion of their previous losses restored?

NCUA needs to address these two issues before finalizing the proposed regulations and anticipating any recapitalization of corporate credit unions.

I also believe that the requirement that "A corporate credit union that permits early share certificate withdrawals must redeem at the lesser of book value plus accrued dividends or the value based on a market-penalty..." is not in the best interest of either natural person or corporate credit unions.

In a rising rate environment, a market-penalty would result in a discounted market value of the underlying instrument and therefore the charge of a market-penalty would be appropriate. However, in a falling rate environment, the redemption price would result in a premium to market value, which the proposed regulations appear to prohibit a corporate from paying to the member. This places corporate share certificates at an investment disadvantage compared to Agency issued debt, where the redemption price would include the premium. This limits the attractiveness of a corporate share certificate as an investment alternative from a liquidity standpoint.

The last comment I have is that I believe the proposed weighted average life of a corporate credit union's investment portfolio to not exceed two years (excluding derivatives and equity investments) is too short. In order to achieve the earnings level necessary for recapitalization under the proposed capital requirements, a corporate credit union may trade interest rate risk for credit risk in order to maintain sufficient earnings to achieve the required capital ratios. Further, the two year requirement would require corporate credit unions to make shorter term loans to their members. This could divert natural person credit unions from corporate credit unions as a source of liquidity to other institutions outside the credit union system. I believe a three year weighted average life would better serve natural person credit unions without placing undue risk at the corporate level.

I appreciate the opportunity from the Board to comment upon the proposed regulations.



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