



March 2, 2010

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

Dear Ms. Rupp:

On behalf of Arkansas Federal Credit Union, thank you for the opportunity to comment on the proposed changes to Corporate credit union regulation, 12 C.F.R. Part 704, and related provisions of National Credit Union Administration (NCUA) rules. The scope of the proposed rules will have broad and long-term effects on the Corporate credit union system. Many of these changes are necessary to reduce the risk in the Corporate system. Others, as outlined below, cause us concern, particularly when they could negatively impact the strength of the Corporate system, and impair the potential benefits the Corporates provide to the credit union system as a whole. This negative impact extends to natural person credit unions, especially the smaller credit unions that do not have the alternatives and options that the larger credit unions have to find alternatives to the services provided by the Corporates.

#### **Depleted Capital and Corporate Recapitalization**

Participation by natural person credit unions in the recapitalization of the Corporate system will be crucial for the ultimate success of the system. However, full and willing participation by natural person credit unions is unlikely unless some form of capital protection is first developed. Either segregating the "toxic/legacy" Corporate assets, or providing a buffer to ensure that new capital is invested to the benefit of future operations, not simply to cover prior losses, is a critical first step in any such plan. In addition, many natural person credit unions have had their corporate capital depleted due to actual and expected losses on legacy assets held by the Corporates. Allowing the Corporates to restore all or a portion of this capital under certain conditions would go a long way toward restoring our faith in the Corporate system. Such faith is necessary to the ultimate success of the Corporate system. If the larger credit unions abandon the Corporates, the system is destined to fail because the larger credit unions provide the necessary volume to make the Corporates viable.

#### **Retained Earnings of Corporate Credit Unions**

The proposed rules provide that retained earnings will comprise at least 1% of the 4% Tier I capital by the end of 6 years. Such a requirement appears aggressive, considering the restrictions the Corporates will now be operating under. Such restrictions may force the Corporates to lower deposit rates, significantly raise fees and reduce products, services and investment options at a time when the entire credit union system is under stress. We question whether the Corporates can remain competitive while still achieving this aggressive target. These requirements may ultimately serve to destabilize the Corporate system as natural person credit unions will be left with little choice but to seek other alternatives to Corporate services. This will be especially true for larger credit unions leaving the smaller credit unions with no other alternatives.

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## Prohibition against Redeeming Certificates at a Premium

The proposed rules provide that early share certificate withdrawals must be redeemed at the lesser of book value plus accrued dividends or the value based on a market penalty that would cover the cost of replacing the certificate. This non-market based approach appears to be intended to improve liquidity management and planning of the Corporates. The unintended consequence is that it restricts the ability of natural person credit unions to do the same. Liquidity pressures exist across the entire credit union system. The rules should not promote liquidity management of the Corporate system at the expense of natural person credit unions. Such a move will likely cause natural person credit unions to seek investment alternatives elsewhere.

### NEV Sensitivity Analysis

As proposed, the rules require additional NEV stress testing and also define a failure of such tests as a regulatory violation. In order to generate the necessary earnings to meet the new capital standards, and stay within these restrictive NEV parameters, Corporates will be forced to reach for additional shorter-term yield at the expense of safer longer-term investments. Since excessive interest rate risk was not a primary point of failure in the Corporate system, more stringent NEV stress testing appears to be counterproductive and does not address the primary point of failure. We fail to understand how this will reduce risk taking activities at the Corporates, and believe it will ultimately increase risk at a time when the entire credit union system can ill afford it.

### Conclusion

It is very clear from recent events that something needs to be done for natural person credit unions to regain trust in the Corporate system. Furthermore, natural person credit unions and Corporate credit unions are natural partners, but only if the Corporates continue to provide competitive products and services at reasonable rates. It appears that the rules, as proposed, either lack the critical elements necessary for natural person credit unions to regain that trust, or include provisions that would make it exceedingly difficult for the Corporates to remain competitive. We urge you to address these shortcomings in your deliberations of the final rule.

Sincerely,



Terrance J. Borreson  
Sr. VP/CFO