Mary Rupp, Secretary of the Board

National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Corporate 704 Proposal:

I am writing in support of our corporate system. This is a system that has served the credit union industry well for many years until last year. Capital Educators FCU is a $250,000,000 credit union with 34,000 members. We use our corporate credit union for investing, payment services, and liquidity. We rely heavily on our Corporate. I believe that Corporate Credit Union's will be seriously hampered by NCUA's proposed Regulation 704 as it stands. After reading parts of this proposal, I see some of it as an over-reaction by NCUA to the Corporate Credit Union crisis, by trying to almost totaling avoid any risk in the balance sheet. Prior to this proposed regulation, NCUA was inadequate in its duties as a regulator of the corporate system, however, NCUA was not alone in its derelict of duties, so was the FDIC, SEC and state agencies. The fact is that no one could've predicted the decline in real estate values that has caused this mess we are currently in. However, NCUA, will be lowering its regulatory IQ by allowing this regulation to stay as it is written because it will put a question in credit union's mind as to the ability of all corporate credit unions to continue as a profitable ongoing businesses. Some critical parts of the proposed regulation are not realistic.

Here are my thoughts on this:

1. In the section on Capital requirements, some of the modeling assumptions are flawed that predict the future profitability of Corporate Credit Unions. The example provided does not represent achievable long-run averages or a realistic reflection of the potential profitability of a model Corporate in the future. This is largely because the results overlook the costs of raising additional capital, adjustments for inflation, and historic spread yields for student loan portfolios.
2. The regulation is attempting to almost entirely reduce the risk in a corporate, yet it is upping the capital requirements, as if the risks will still be there. I am asking NCUA to allow the risk in the balance to be consistent with the required capital. NCUA is suggesting using Basel risk based methodology similar to the banking system if I understand correctly. Then maybe the investment and ALM processes and requirements in the regulation be similar to the banking industry.
3. The regulation ignores the problem with the legacy assets. I believe that NCUA should delay this regulation until Corporate Credit Union's know how NCUA is going to deal with these assets. It will be hard for any credit union to invest new capital into the corporate structure until this issue is dealt with.
4. The regulation is so restrictive to corporate credit unions that they will have no choice but to dramatically increase fees to credit unions for payment services, which will then cause credit unions to re-evaluate their corporate relationship and many if not all, will leave. Corporate Credit Unions can bring in employees with the expertise to manage the risk of investments reasonably and still run a good business for the credit unions if allowed to do so.
5. If Corporates are only allowed to make short-term investments, I question whether they can be profitable themselves and provide a yield that is attractive to a credit union depositor? A 2 year WAL is an overreaction. Under this provision, the weighted average life (WAL) of the

Corporates' investment portfolio, excluding derivatives and equity investments, may not exceed two years. This rule will force the Corporates to issue short-term loans almost exclusively to ensure that they not only meet the two-year WAL ceiling, but are sufficiently beneath it. In the event that a longer term loan was issued, the Corporate would have to charge significantly more in interest and fees to compensate for the negative WAL impact. It would also reduce the asset mix and hinder efforts to diversify the balance sheet mix—something that would be helpful if there was, for instance, a hit to short-term assets—thereby further weakening the Corporate system. For us, this would be a bad thing since the outcomes run counter to one of the things we rely on our Corporate for: an issuer of inexpensive and easily accessible liquidity for our credit union. We would have little alternative but to turn to the Federal Home Loan Banks (FHLBs) for our liquidity. They themselves are suffering in the current economic climate and we would see increasing rates and fees. Or we would have to turn to a bank, which would be more expensive and would place us in the hands of a competitor. The FHLBs have also been further restricting credit. This provision directly impacts the competitive nature of Corporate credit unions and FHLBs. As written, this regulation will likely raise borrowing costs for us and impact our access to term funding as a method of managing interest rate risk. I am asking that this provision should be removed in its entirety, especially if there are stress tests and other new limitations on Corporate investments.

We at Capital Educators FCU are very embedded in our corporate, and the regulation, I believe will not allow the corporate credit unions to continue as ongoing businesses. We do not like the thought of having to go outside the credit union industry for the services we receive from our corporate. Please consider these points in your analysis and delay this regulation until the above points are corrected.

Sincerely,

Todd Erickson

President/CEO

Capital Educators Federal Credit Union