March 3, 2010

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

Dear Ms Rupp:

City Credit Union is a $23 million credit union that has been serving the Independence, MO area for 50 years. We appreciate the opportunity to comment on the proposed revision to National Credit Union Administration (NCUA) regulation, Part 704 regarding Corporate Credit Unions.

The NCUA Board has a difficult challenge ahead of them. As was evident in your Webcast on February 18th, it is still critical to maintain liquidity in the corporate system. The rule as proposed will make it more difficult for the American Credit Union System to maintain liquidity. It will also make it more difficult for corporate credit unions to meet what in our opinion are unreasonable time lines for restoring corporate capital levels. We hope to make our point that the combination of strenuous capital guide lines as well as unreasonably short time-lines will have a dramatic effect on Natural Person Credit Unions (NPCU) and have an increased negative effect on liquidity and on the capital goals that you seek.

The finalized rule will directly impact NPCU's because of their historic ties to the corporate system. What happened to the economy and the corporate system may or may not have been avoidable, and regulators, corporates, and NPCU's must share the fault. These entities must work together to rebuild and strengthen the system. We agree with the overall objectives of the proposed rules, but offer the following ideas or objections for your consideration.

**704.3 - Corporate Credit Union Capital**
Under the proposed rule, corporates would be required to meet the core capital standard within twelve months of the final rule. This time frame seems unreasonable. Essentially all corporates are starting at zero core capital. Paid in Capital and Membership shares will have to be replaced with Perpetual Contributed Capital (PCC). Granted there are some corporates with membership shares remaining that could be converted if their members agree. With all the loses sustained by NPCU's in 2009 you are making the assumption that credit unions will jump in with addition

capital contributions while there are still unanswered questions about whether the new PCC will be subject to future OTTI losses. NPCU's are also trying very hard to meet income demands placed on them by their examiners and may not be willing to contribute additional monies that will undoubtedly not have a return for some time. Finally, credit unions are going to have to do some due diligences and decide whether the risk of losing PCC and the loss of income on what would essentially be a non-earning asset would actually be beneficial to their memberships. Credit Unions would need to research whether they can receive these services through another channel at the same or lesser cost. This could mean a **LOSS** of liquidity in the corporate system. It would be our suggestion that this 12 month period be extended to 36 months to allow for enough time to answer the questions on the OTTI losses and their carry-over effect to new PCC. The additional time will also allow corporates to put together and sell a new business plan to their memberships. In Missouri there are 160 plus members in Missouri Corporate Credit Union (MCCU). It is our estimate that there will have to be several "town hall" style meetings and individual credit union Board meetings that MCCU employees will need to attend to try and raise the needed capital. Finally, once there are better signs of a swing upward in the economy, individual Boards may be more likely to consider PCC contributions to the corporate network.

In addition to the capital requirements of 704.3, you have presented only one earnings model as proof that corporates will be capable of generating the necessary 45 bps of net earnings in three years. Isn't this lacking somewhat considering your own due diligence standards for NPCU's? Examiners require NCPU's to have multiple models so why isn't this appropriate here? The model you presented looks great on paper, but in reality you are placing 75% of the revenues on a concentration of private and federal student loans. The Credit Union Times published in December an article stating that these private-label student loans are currently under scrutiny, and several of the comment letters question the ability to even obtain these investments and their rate of return in the current economy. Once again, by adding more time to the rule would allow for additional models to be created and for corporates to build business plans that are workable within their memberships. We once again ask NCUA to look long term rather than short term in these decisions.

Meeting the net capital ratio requirements under 704.3 also will cause corporates to down size their balance sheets forcing credit unions to remove liquidity from the system. For the past year NCUA has been emphasizing the critical nature of keeping funds in the network so that liquidity demands of the corporate system can be met. We have been asked to do this to avoid turning unrealized losses into real losses. The rule as it is written will reduce the liquidity in the system due to the need for corporates to increase their retained earnings ratio. Once again, not rushing the recovery time will strengthen the network moving forward in the future.

As stated earlier, this rule will directly impact NPCU's. Credit Union's already weak bottom lines will be subject to higher fees and lower returns on our deposits through the corporate network. The biggest concern for City Credit Union is the almost non-existent return on our over-night account and the very big possibility that our Line-of-Credit will soon have to come with a price tag. Currently MCCU provides member credit unions a line-of-credit that only cost them if they access the line-of-credit. MCCU has been most valuable to City Credit Union over the years in providing us liquidity management. The new rule will severely limit this benefit. The credit union has been forced, and maybe forced even further, to reduce the funds in our overnight account because of low dividend rates. Managing liquidity on a much more in-depth daily basis will cause an increased workload on credit union staffs across the country. All of this increased corporate regulation will ultimately fall on the shoulders of NPCU's.

Section 704.3 of the rule as proposed will add to the burden of NCUA, because almost every corporate credit union will fall under prompt corrective action (PCA). We agree with the addition of PCA to the rule. But is it beneficial to the system, NPCU, NCUSIF, and NCUA to start with all corporates under section 704.4? Per the PCA statute, this will require additional time, energy, and expense for NCUA. In the long run this additional expense will once again be paid for by NCPU's.

**Section 704.8 - Asset and Liability Management**

Although we agree with NCUA that steps are needed to address the causes that created the losses in the corporate system, a two year weighted average life seems unreasonable under the requirements of 704.3. The effects of these limits will drive down rates, encourage withdrawal of funds from the system, and make it even more difficult for the corporates to meet their requirements under 704.3. Has NCUA considered core deposits in their estimates? It is our understanding that the rule does not take into consideration the amount of overnight accounts that can be considered core deposits. The recognition of core deposits is a pillar of most model ALM programs. Would it not benefit both NCUA and the corporates to consider the core nature of the deposits and allow for a longer weighted average life? We ask you to consider using core deposits in the ALM management.

**Section 704.14 - Corporate Governance**

City Credit Union feels that the 6 year limit on continuous service might be too conservative and would suggest that this be extended to 9 or 12 years. Even to a NPCU CEO, the corporate system is a different organization. There is a lot to learn to become an effective corporate Board member. Especially through this time of upheaval we feel that the more experience we can have working for us the better. Chairman Matz stated on the webcast that this rule was open to discussion. We would respectfully ask that the six years (2 terms in Missouri) be extended to 3 or 4 terms.

In conclusion, City Credit Union relies heavily on the MCCU. We have supported MCCU and have done everything possible to keep our funds at MCCU despite the declining yield. The biggest issue that we have with these rules is it appears that it is going to make it more difficult for our corporate to survive and will ultimately increase expenses to our credit union and its membership. MCCU staff did not make any of the investments that have caused this ruling. They have operated efficiently, with low operating expenses and have paid reasonable dividends. MCCU employees have always been just a phone call away when we needed professional, expert advice. It is our belief that MCCU will find a way to survive, as will all the corporate

credit unions, if the time constraints in this rule are loosened. City Credit Union and every other NPCU need a strong and healthy corporate network.
Thank you for your consideration.

Sincerely,

Larry Horne
Chairman of the Board

Dayla Bishop Schwartz
Vice Chairman of the Board

Mary Thompson
Secretary/Treasurer

Bob West
Board Member

Jerry Hunter
Board Member

Kay Burrus
Board Member

Hal Cross
Board Member

Steven Knudsen
President/CEO