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FAX NO.

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March 3, 2010

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

Dear Ms. Rupp,

Thank you for providing the opportunity to comment on the NCUA Proposed Rule on Part 704, Corporate Credit Unions.

While we, at Members 1<sup>st</sup> Federal Credit Union, understand the NCUA's need to address areas within Part 704 regarding capital levels and investment authorities, we also believe it is important that the restrictions be reasonable. The new regulations should not be so restrictive that they inhibit a corporate credit union's ability to provide competitively priced services to natural person credit unions.

We submit the following comments regarding the proposed rule on Part 704:

**Capital**

- Under the proposed regulation, Perpetual Contributed Capital (PCC) that exceeds retained earnings is excluded from the capital calculation. We believe that either the entire balance of PCC must be included in Tier 1 capital, or it must be returned to members.
- The proposed regulation should be modified to allow current MCA balances that are placed on notice or not otherwise converted to count as capital at the same two-year declining scale as defined in the present regulation.
- The proposed regulation should also be modified to permit the withdrawal notice to be reduced to three years on Non-perpetual Capital Accounts (NCA), which

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have no stated maturity, if the funds contributed have already been in NCA member capital accounts for at least two years.

- We have concerns that the ability of any corporate credit union to obtain 45 basis points in retained earnings in three years is not realistic, if the current interest rate environment continues.
- Retained earnings modeling under the current proposed regulation is unrealistic in the current low rate environment and does not take into account the different cost structures of various corporate credit unions.

### **Credit Risk Management**

- The single obligor concentration limit within the proposed regulation is set at 25% of capital or \$5 million. This limit is too restrictive and could actually place corporate credit unions at higher risk by overly constraining balances that can be placed in strong, well capitalized depository institutions. Corporate credit unions could be forced to make riskier investments due to the limited number of highly rated financial institutions. A much higher limit should be applied to cash deposits in financial institutions, which are already heavily regulated by federal authorities.

### **Investments**

- We would recommend that NCUA simply eliminate the higher investment powers (Parts I through IV) while retaining the "Base Plus" authority. This would be a simplification of the regulations, which would still result in limitations on investment powers.

### **Asset Liability Management**

- Testing and modeling requirements under the proposed regulation are excessive and are layered on top of one another in such a way that they could be in conflict. Combining the requirement for testing/limitations for investment sectoring/obligor concentration limits and spread testing represent a layered regulatory framework that is overly restrictive. ALM testing and restrictions should be equivalent to that of corresponding bank regulations. The proposed credit union regulations should not impose more strict regulations than existing bank regulations.

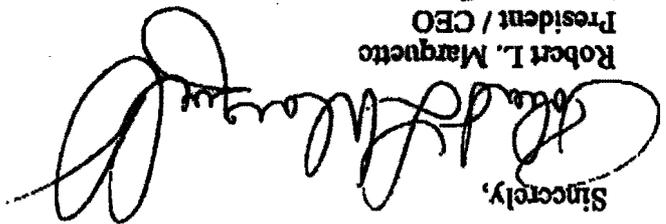
### **Corporate Governance**

- Limiting potential Board candidates to those holding the specific credit union titles of CEO, CFO, and COO is not an effective measure for identifying the suitability of the candidate (additionally, the regulation makes no provision for credit unions that use titles such as Manager or Treasurer for their most senior officers). There are other well-qualified potential board members, including non-credit union business professionals, attorneys, etc. These professionals, who have relationships with the natural person credit union members could provide a wealth of knowledge and experience.

> We recommend a longer term limit than the proposed 6 years. A long tenured and stable Board is important as Boards are built around a corporate credit union's culture, values, and principles. It takes time for Board members to thoroughly understand a corporate credit union's operations, and thus provide the most effective corporate governance.

The proposed regulation appears to be designed to avoid the mistakes and problems that occurred predominantly at Wescorp and US Central. However, all corporate credit unions did not operate in that manner, and the new rules should not result in onerous restrictions that will not allow the corporate credit union system to thrive and remain viable. Interest rate risk is an integral part of business for all financial institutions and sufficient latitude is needed to prudently manage risk and to build capital.

Sincerely,



Robert L. Margetto  
President / CEO

Members 1<sup>st</sup> Federal Credit Union

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