



March 3, 2010

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

Re: NCUA Rules and Regulations Part 704 for Corporate Credit Unions

Dear Ms. Rupp:

The National Credit Union Administration is to be commended for its commitment to reform and allow all credit unions the opportunity to provide input into the credit union reform. After a thorough review of the proposed changes to NCUA Rules and Regulations Part 704 for Corporate Credit Unions, we believe that these provisions deny corporates any chance for viability. The following contains recommendations regarding the proposed changes to NCUA Rules and Regulations Part 704 for Corporate Credit Unions.

704.3 Corporate Credit Union Capital

Adding a risk-based capital standard to the corporate rule provides for a credit risk measurement. This standard is a much needed addition to the proposed rule since underestimation of credit risk was a major contributor to the global economic meltdown.

Recommendation

There should be only one provision regarding capital that is effective 12 months after the publication of the rule. It should read: *12 months after the date of publication of the final rule in the Federal Register a corporate must maintain at all times a total risk-based capital ratio equal to or greater than 8%.*

We agree with the following portion of the provision and believe it is good reform: *36 months after the date of publication of the final rule in the Federal Register a corporate must maintain at all times:*

1. *A leverage ratio equal to or greater than 4%;*
2. *A Tier 1 risk-based capital ratio equal to or greater than 4%; and*
3. *A total risk-based capital ratio equal to or greater than 8%.*

704.5 Investments

(i) Grandfathering - The grandfathering section of the proposed rule states that a corporate credit union's authority to hold an investment is governed by the regulation that was in place at the time of purchase. However, the proposed rule also states that all grandfathered investments are subject to the requirements of 704.8 (A/L Management) and 704.9 (Liquidity).

Recommendation

Grandfathering provisions should be placed in sections 704.8 and 704.9 of the proposed rule providing for corporates to hold securities purchased legally under the current corporate rule.

704.8 A/L Management

(c) Penalty for Early Withdrawals

Dictating the redemption payout of a certificate to Par, or less than Par, does not make the corporate funding base more stable. This provision in fact makes the funding base for corporates less stable. The provision takes the "liquidity component" out of a CD purchased from a corporate. This will deter credit unions from considering a corporate CD purchase because they can't redeem CDs at anything better than Par. This restricts the ability of a corporate to attract funds and keep a balance sheet funded. This provision is overly restrictive and drives away potential investments in corporate credit unions.

Recommendation

Corporates must be provided the opportunity to add value to credit unions while simultaneously building capital via retained earnings. This provision needs to be stricken from the revised corporate rule providing for a corporate CD to be redeemed at market value levels. Apply a strenuous credit spread analysis/modeling to the riskiest sectors of investments to avoid presuming that every bond on a



corporate's balance sheet will fail regardless of the credit quality of the underlying assets. Remove the Cash Flow Mismatch Sensitivity Analysis with 50% Slowdown in Prepayment Speeds from the regulation.

704.9 Liquidity Management

(b) Borrowing Limits

Changing the language from *10 times capital or 50% of shares whichever is greater* to *10 times capital or 50% of shares whichever is lower* reduces the amount of liquidity that can be drawn into the credit union system. Of course credit unions can access liquidity from other sources and providing as many liquidity sources as possible for credit unions was one of the principals driving the creation of the corporate network.

Recommendation

Maintain borrowing limitations as written in the current corporate rule. The current rule states, "A corporate credit union may borrow up to 10 times capital or 50% of shares (excluding shares created by the use of member reverse repurchase agreements) and capital, whichever is greater."

704.11 Corporate Credit Union Service Organizations (CUSOs)

(e) Permissible Activities

The proposed revisions to this section are very prescriptive and ambiguous. Permissible activities for corporate owned CUSOs are listed including "Other categories of services as approved in writing by NCUA and published on NCUA's website". This language provides for micro-management of a corporate. Corporates and credit unions must plan, execute, cooperate, be efficient and effective at bringing value to the respective memberships. The ambiguous language used in the proposed rule and cited above will bring the unintended consequence of stymieing planning and cooperation as uncertainty about NCUA's CUSO approval criteria will exist. The current regulatory CUSO rule is a good one.

Recommendation

Maintain NCUA Rules and Regulations Part 704.11 as currently written. The current section 704.11(a)(3) pertaining to CUSO permissible services reads, "Restricts its services to those related to the normal course of business of credit unions".

704.14 Representation

(a) Board Representation

It is unnecessary and overly restrictive to include limiting board member terms as a part of regulatory reform. NCUA has the powers now, and under the proposed corporate rule in the Prompt Corrective Action section, to take action as deemed necessary with a troubled corporate. These actions could include replacing boards and management in addition to other administrative actions.

Recommendation

The provision dictating a term limit of six years for a corporate credit union director should be removed from the final corporate rule. The right to determine who will serve on a corporate board and for how long should remain in the control of member owners as long as the corporate is in safe and sound condition as defined in the proposed corporate rule.

Conclusion

I appreciate the opportunity that the National Credit Union Administration Board of Directors is providing by listing our concerns and recommendations related to the proposed amendments to Rules and Regulations Part 704 for Corporate Credit Unions. We support good regulation - good regulation that maintains safety and soundness throughout the corporate network while providing for corporates to add value to credit unions and simultaneously accumulate reserves.

Respectfully,

Robert D. Ramirez
President/CEO

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