



March 4, 2010

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

Re: Comments on Part 704 Corporate Credit Unions

Dear Ms. Rupp:

This letter is written by and represents the opinions of Visterra Credit Union. We appreciate the opportunity to comment on NCUA's proposed amendments to Part 704, which would make major revisions regarding corporate credit union (CCU) capital, investments, ALM modeling and governance.

NCUA's proposed regulatory overhaul aims to reduce the risk in the corporate system; the major limitations in the proposed rule concern capital, liquidity and investment returns. If the proposed rule is not amended, parts of the proposed rule will force Natural Person Credit Unions (NPCU) to seek alternatives (primarily banks and investment companies), at a possible higher cost and certainly with lower service levels than provided by CCU's.

Of primary concern:

1. Time Period for Capital Ratio Attainment – Due to a lack of sufficient retained earnings at most CCU's, and an inability to grow retained earnings at a rate required by the proposed rule, NPCU's will likely be asked to contribute approximately 4% of the CCU deposits as perpetual capital within 12-months of the publication date of the final rule.

It is highly unlikely that Visterra Credit Union would be willing to contribute additional capital (considering the losses we've already taken), particularly in such a short time period as 12-months, coupled with the current unstable economic environment. The time period to re-capitalize corporate credit unions needs to be lengthened considerably; i.e. four or five years.

2. Retained Earnings Growth Model – In reviewing NCUA's assumptions regarding a CCU's ability to grow reserves, it is VCU's opinion that NCUA is overestimating a CCU's ability to generate net income based on the assumed investment mix. Therefore, it is VCU's recommendation that NCUA obtain an independent, third-party "proof of concept" validation of the Agency's business model.

3. Legacy Assets – Given number one above, why would any NPCU invest capital or deposits over the maximum insurance limit or term, if the CCU had Legacy Assets which could potentially cause future losses (estimated at potentially 30 billion dollars)? Until this issue is addressed by the NCUA, it is unlikely that NPCU's will invest deposits and/or capital in CCU's once the 100% guarantee is eliminated.
4. Average-life NEV Testing – The proposed rule requires average-life mismatch net economic value (NEV) modeling/testing in addition to existing interest rate risk NEV modeling. VCU is concerned that there is no combination of assets with a two-year average life and limited extension risk that could generate sufficient margin to attract funding and pass a 300 point credit shock test. Further, the proposed limitations placed on CCU's by these tests would not allow CCU's to generate sufficient interest margin to build reserves to meet the new capital requirements contained in the proposal. Simply put, this requirement would force CCU's to lower their cost of funds and pay lower yields to NPCU's.

VCU believes it would be more realistic to set the credit shock test to 100 bps widening, double the historic average. Even at 100 bps credit shock, a NEV volatility limit of 35 percent decline is needed to accommodate the impact of floating-rate investments carrying the loss to maturity.

5. Weighted Average Asset Life – As it stands, the proposed rule limits weighted average assets to two years or less, including loans. Frankly, this proposal is quite nearsighted. If this provision is enacted, it will most likely force most NPCU's to seek alternatives to CCU's for longer term borrowing needs. Why, because CCU's will limit borrowing terms to two years or less in order to keep their overall weighted average asset life to two years or less. VCU strongly urges the NCUA to exclude loans from the calculation of weighted average life of the investment portfolio.
6. Consolidation of Corporate Credit Unions – VCU is a staunch supporter of reducing the number of CCU's. We understand the politics of this proposal but we believe consolidation would reap huge rewards in terms of efficiency, effectiveness and the reduction of duplication of infrastructure. VCU would welcome discussion between the NCUA and the Leagues to consider consolidate the CCU system.
7. An Extra Line of Defense between Corporates and Natural Person Credit Unions – VCU believes that NCUA should explore options for creating a line of defense between CCU's and NPCU's. Although a number of Federal Home Loan Banks (FHLB) are known to have invested in similar toxic securities and have found themselves in highly weakened capital positions, no credit union or bank has lost stock held in FHLB's, a considerable difference to the capital lost by NPCU's in the credit union corporate system.
8. Risk-Based Net Worth for Natural Person Credit Unions – While it is beyond the scope of Section 704, VCU takes this opportunity to ask that risk-based capital be extended to NPCU's. As the CCU meltdown clearly reminded the entire credit union system, not all assets are created equal and NCUA should modernize its measurement of capital adequacy to reflect the degree of risk associated with different assets. VCU urges NCUA to exercise its regulatory authority to update the capital framework for NPCU's to align with the broader financial sector by extending risk-based net worth to NPCU's.

In closing, Visterra Credit Union would like to thank the Board for the opportunity to provide the views, concerns and recommendations of Natural Person Credit Unions on the Agency's proposed regulation. We urge the Board to seriously consider our opinions and recommendations, balancing the needs of the Corporate system with the long-term needs of the entire credit union industry. It is imperative that we take action that secures solutions not only for today, but also for tomorrow's prosperity.

Sincerely yours,



Robert Cameron  
President/CEO

Cc: Visterra Credit Union Board of Directors  
California Credit Union League