

From: [Robert Harris](#)
To: [Regulatory Comments](#)
Subject: 12 CFR Parts 702, 703, 704, 709 and 747 Corporate Credit Unions Proposed Regulations
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March 4, 2010

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

RE: NCUA's Proposed Regulation Part 704

Thank you for the opportunity to provide perspective and comment on the NCUA's Regulation Part 704 concerning the re-organization and operations of the Corporate Network. As a small credit union of about \$20 million in assets, the future of the corporate system is vital to the viability of most small credit unions. I feel the small credit union has benefited by the current corporate model. We have been fortunate to have a corporate that looked after us by providing the expertise in payment systems, investments, and operations we could not hire even if we had the ability to fund such positions. Our location, and most of the other small credit unions I am aware of in North and South Carolina, are not in major financial markets where these performance traits would be available in the market.

First Carolina Corporate Credit Union has been a partner in our success. The flow down from the US Central and WesCorp failures have devastated our income over the past year and a half. I do not think the new Part 704, as presented will provide a workable situation for the current corporate credit unions and the small credit unions.

I attended the NCUA Town Hall meeting held in Orlando. The reason I attended was the importance the restructure means to me and our credit union. The officials from the NCUA speaking that day said to not just say what sections of the proposed regulation will not work but provide examples of alternatives. I think a better way is to take the staffs of the current corporates and the NCUA, with equal voices, and convene a conference to work through and tweak what is provided in the proposal. I think everyone agrees there needs to be new rules and procedures, it just seems the proposed rules tighten the screws too far.

In my best interest, and I feel many small credit unions would say the same, the closer we have the corporate, the better. The corporate in Washington State would have a hard time relating to me in South Carolina. A corporate that is allowed to re-cap with a viable plan, would serve me better if it is located in the Carolina's.

As far as the proposal:

1. Extinguishment of Capital:

So far the losses taken, on the most part, are anticipated losses given the current value of the tainted portfolios. Everything I have seen is that if those losses do not occur then the capital remaining after the securities are either termed out or liquidated will not be returned to those NPC that actually booked the losses. I have an example in our community of how unfair this could be. One of my fellow NPC's in my area did not have any PIC with First Carolina Corporate. Therefore, it only lost a slight amount of its member shares were as we had to write off 100% of our PIC. Would it be fair for that credit union to have the unrealized loss distributed on an across the board percentage? I do not think so. The only fair way is to distribute on a pro-rata share of the original losses.

2. Liquidity- 30 day maximum borrowing term:

The NCUA is proposing a 30-day on term borrowing for a corporate credit union and generally restricting borrowing for liquidity purposes only.

We object to this as it would not allow sufficient borrowing resources whereby the corporate could help with the temporary borrowings to help its members in a time the member needed some help with liquidity. There should be not time limit.

3. 2-year Weighted Average Life (WAL) portfolio limit:

The proposed regulation calls for a maximum weighted average life of a corporate's investment portfolio not to exceed 2 years. This does not give any leeway for seasonal trends which would vary in the market and area of the country. The two year WAL limit is too restrictive since the corporate would have to manage a portfolio well below this level to ensure compliance. We suggest a 12 month average assets. This would take into account the seasonal cash flows.

4. Spread widening test- 3month mismatch target:

In addition to NEV modeling, NCUA is proposing a new ALM test which would require corporate to shock its balance sheet assuming all floating rate investment spreads widen by 300 basis points. NCUA's goal is to force a mismatch maximum between assets and liabilities of 3 months.

The spread widening test should be modified to exempt securities that do not carry a risk component, such as government-backed and/or government agency investment. Assets risk-weighted at 20% should also be subjected to a lower spread widening test than the proposed 300 basis point model to reflect their lower credit risk component.

5. Callability of Perpetual Contributed Capital (PCC):

The proposed regulation requires a corporate board to obtain NCUA approval before redeeming or calling any portion of PCC. We feel the corporate that meets the required capital requirements within the regulations should be allowed to call PCC on a pro-rata basis without regulatory

approval.

6. Sole discretion of OCCU director to require higher capital:

We are very concerned with the subjectivity proposed in the regulation regarding NCUA's ability to amend a corporate's required capital levels including downgrading a corporate to "undercapitalized" if it receives a single examination component rating of 3 or worse.

NCUA should not be able to subjectively determine alternative minimum capital standards. Corporates and member credit unions need to be able to evaluate the stability of their corporate in determining the likelihood of being subjected to Prompt Corrective Action (PCA).

7. Single obligor limit for overnight/fed funds transactions:

There are several concerns in this area. First, the recapitalization plan of our corporate relies on the re-investment by many of its current member credit unions. The cap, as the corporate model exists, would have to be re-written to cut down on some of the investments in the corporate the plan anticipates by NPC's in the two Carolinas.

Second, the proposed regulations would limit the amount of investment by corporate in overnight funds or cause the corporate to have as many as 40 institutions to park the overnight funds and stay within the proposed limits. This would not be prudent in our view to have to keep up with up to 40 investment vehicles rather than a few, manageable investment vehicles.

Currently, these deposits are primarily invested at US Central FCU or the Federal Reserve Bank although we anticipate a time when neither option would be optimal for our portfolio needs. Given the much lower risks involved with overnight investments compared to term investments, we recommend that overnight deposit limits be increased to 100-200% of capital to be in line with repurchase limits.

8. Director term limits:

NCUA is proposing term limits for corporate directors of 6 years (two 3-year terms). The impact to the FCCCU board will be that 7 of our 9 directors will not be able to seek reelection (may run again after sitting out at least one year). Since we as members elect the board of directors, we feel this would limit the individuals we feel would do the best job and have the best knowledge to oversee the corporate. We believe if there are to be limits (and we still feel there should not be limits) then it makes more sense for them to be 9 years (three 3-year terms).

9. Effective phase-in timeline for entire new regulatory guidelines:

There are numerous provisions of the proposed regulation that are effective immediately upon final approval of the NCUA board. Most, if not all, corporates will be out of compliance with at least one or more of the proposed sections of the regulation when approved by the NCUA board. There needs to be some minimal amount of time given to comply with all sections of the new rules. Since most corporates are currently operating under an agreement with the NCUA in exchange for a NCUSIF share guarantee, it seems as if there is minimal risk in providing an appropriate transition period for corporates to comply with each of the proposed changes.

Summary:

Finally, I feel the corporate system has worked well for the smaller credit unions in our area. First Carolina Corporate Credit Union has been a partner in our success. The services they provide, the people they employ, and the leadership of both the management team and the volunteer board are very comfortable for us. To seek to go out and replace our corporate would mean we would have to go either straight to the FED or to a bank for those services. In either case, I do not feel we would have someone looking after our best interest as FCCCU has over the years we have been associated with it.

Please keep the small credit union in mind as you restructure the system.

I still suggest that the NCUA and corporate credit union staffs should sit down together and work out these details for the benefit of all of us. We feel the corporate system and First Carolina Corporate Credit Union in particular are important to the success of Health Facilities Federal Credit Union. Please make it work.

Sincerely,



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