March 3, 2010

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

Re: Proposed Corporate Regulations

Dear Secretary Rupp:

We appreciate the opportunity to respond to the Proposed Corporate Regulations. EECU is a state chartered, federally insured community credit union headquartered in Fort Worth, Texas. EECU serves approximately 126 thousand members who are largely employed by various independent school districts, hospitals, and universities in the Fort Worth area and surrounding counties.

Our management team attended the town hall event at DFW on Corporate Credit Unions and recently met with Mr. John Cassidy, President of Southwest Corporate FCU. We remain very concerned about the handling of the corporate credit union crisis and NCUA's response, and are troubled by NCUA's attitude that the natural person credit unions will determine the ultimate fate of the corporate credit union system.

We believe that the three tiered regulatory system is flawed as the huge losses at US Central and the Corporate Credit Union's have trickled into natural person credit unions that did nothing to contribute to the catastrophe. In effect, the current structure of regulatory oversight and coverage by NCUSIF should be abandoned, segregating out the insurance aspects of natural person credit unions from the higher risks associated with both US Central and corporate credit unions. We believe that NCUA will ultimately be <u>responsible</u> for the collapse of the corporate credit union system, since NCUA is the sole regulator for each of the three tiers.

Chairman Matz is correct in her assertion that the natural person credit unions will ultimately determine the <u>fate</u> of the corporate credit union system. Once the full insurance protection is reduced to its customary level, the larger natural person credit unions will **not** leave sizable uninsured overnight deposits at the corporate, requiring credit unions to seek other alternatives such as the Federal Reserve. This will ultimately result in the failure of the corporate credit union system. The Proposed Regulations do little to provide natural person credit unions the security to continue operating in the current fashion based upon NCUA's track record of regulatory oversight. NCUA will need to propose stronger incentives for natural person credit unions to continue investing and possibly recapitalizing the corporate credit union system.

Fortunately, EECU has sufficient earnings and capital to withstand all of impairment charges and premium assessments thus far. Other credit unions will not fare as well. We have seen an unwillingness on behalf of the regulatory bodies to assist those credit unions that are struggling, giving them more time to restore earnings performance and capital. This seems troublesome given the fact that NCUA's inadequate regulatory framework for the corporate credit unions may contribute significantly to the demise of those credit unions.

EECU has been a member of Southwest Corporate FCU for over twenty years – they provide invaluable payment services to member credit unions in the form of share draft processing, check presentment and collections, ACH, wires, overnight fed funds, investment advisory, reserving requirements, etc. In our roles as fiduciaries of our members' funds, however, we believe it will be necessary without a significant change in direction by NCUA to seek other alternatives for these critical member services. The corporate system will be damaged significantly by the withdrawal of funds from natural person credit unions, thus reducing corporate credit union assets below levels necessary to sustain service levels. Further compounding this problem will be NCUA's push to raise service pricing and maintain lower investment returns to member credit unions, further driving natural credit unions to other service providers.

EECU would like to see a continuation of the corporate credit union system, but feel that the regulatory restrictions would significantly change the corporate business model, making it virtually impossible to generate enough net income to meet the requirements and timing of the new capital requirements. A timetable of one year for attaining required capital levels appears to be unattainable.

Below is a summary of our recommendations:

1. Segregate the insurance aspects of natural person credit unions from US Central and corporate credit unions.

2. Create an incentive for natural person credit unions to continue membership in the corporate credit union network by continuing to insure 100% of natural person deposits in the corporate.

3. Provide more time to those credit unions struggling to restore earnings performance and capital.

Proposed Regulation 12 CFR Part 704

704.8 (e) Restriction on cash flow mismatch – The Proposed Regulation appears to limit the mismatch between assets and liabilities to only two months. We do not believe that this would allow the corporate credit unions to generate sufficient net income to meet the new capital requirements over the phase in period. NCUA commentary regarding the ability to raise fees appears problematic in that service pricing is largely based upon market factors rather than recapitalization needs.

Recommendation: Increase the mismatch from 2 to 6 months.

704.3 One-year transition period – NCUA should segregate legacy assets and not expose future contributed capital to potential losses on legacy assets.

Recommendation: Segregate legacy assets.

704.2 Natural person credit unions have already been required to record impairment losses on their MCA's. The Proposed Rule should not contemplate exhausting member contributed capital as credit unions would be unwilling to place additional funds at risk at this time. Corporate credit unions should therefore be allowed to maintain a retained earnings deficit.

Recommendation: Allow corporate to maintain a retained earnings deficit or restore credit union member capital accounts once legacy assets are segregated.

704.8 (h) Weighted average life of investment portfolio of 2 years – This appears to be overly restrictive. Corporate credit unions have routinely mismatched their balance sheets to enhance yield. A weighted average life of two years is insufficient duration to allow corporate credit unions to generate adequate income streams. Reliance upon the 300 basis point shock test does not appear realistic in the NEV computation. Use of the 100-200 basis point instantaneous shock appears to be more useful and reasonable in managing interest rate risk.

Recommendation: Increase weighted average life of investment portfolio to 3 years.

704.8 (k) Concentration limits – A limit of 10% of daily average net assets for a single member or entity appears problematic. Corporate credit union balance sheets remain driven by the amount of liquidity in the natural person credit union system, thus providing a high degree of balance sheet volatility. The overall limit would restrict the capacity of the corporate to obtain alternative funding from the Federal Home Loan Bank and in turn, limit the capacity of the corporate to make available sufficient funding sources for natural person credit unions.

Recommendation: Eliminate or increase the limit.

704.14 (a) (2) Qualifications for service – The requirement to hold the position of CEO, CFO or COO appears arbitrary and would possibly prevent other highly qualified candidates from serving as directors.

Recommendation: Remove director qualification by title and focus on qualifications and experience.

704.14 (a) (3) Term limits – The proposed 6-year term limit appears overly restrictive, substituting the potential for experience, longevity, and common sense for inexperience.

Recommendation: Remove 6-year term limit and impose an age limit.

Thank you for the opportunity to respond to the Proposed Corporate Regulations. We hope that the NCUA board and staff will give more consideration to the Proposed Regulations and their impact on both corporate and natural person credit unions.

Sincerely,

Robert C. Sanger
Chief Financial Officer