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March 3, 2010

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

Re: Proposed Amendments to NCUA Rules and Regulations Part 704 – Corporate Credit Unions

Dear Ms. Rupp:

On behalf of the board and management of Randolph-Brooks Federal Credit Union, we appreciate this opportunity to provide our official comments on the agency's proposed changes to Part 704 of NCUA Rules and Regulations regarding corporate credit unions.

We commend the agency for its intention to forthrightly address the issues facing corporate credit unions today, as well as the impact of corporate credit unions on the natural person credit union community. This is a crucial issue for the entire Credit Union Movement - one that has tremendous impact on the competitiveness of credit unions, the availability of certain products and services within the movement, the incentive to remain a part of the cooperative credit union system and the long term viability of the credit union share insurance fund.

It is because of the importance of this matter and the implications of ensuring that the changes that are implemented to Part 704 of the NCUA Rules and Regulations are appropriate to the risks involved and balanced in their approach to all credit unions that we offer the following comments.

First and foremost, we believe that the corporate credit union system needs to be preserved. Credit unions need to have a system alternative. History has taught us that we cannot always rely on the commercial banking system for all of our needs. Many in the commercial banking system have sought to destroy the credit union system and a number continue on that path today. We also believe that natural person credit unions (NPCUs) will require an incentive to recapitalize the corporate credit unions. It is imperative that the final regulation provide NPCUs with a strong comfort level that corporate credit unions will be able to implement the new rules in a way that they can actually survive

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and thrive. It appears that the proposed restrictions on corporate credit unions will lead many potential investors among NPCUs to a belief that no corporate can comply with the requirements of the proposed rule. This will unfortunately force many NPCUs, even those who would otherwise desire to support the corporates, and through them the credit union system, to look elsewhere for investment of their capital dollars.

In fact, we believe that this proposed regulation could force some NPCUs to more seriously consider conversion to a mutual savings bank charter. These field of membership restrictions and capital constraints, losses to date by NPCUs in their capital investments in corporate credit unions, and increases in premiums for the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) and National Credit Union Share Insurance Fund (NCUSIF) provide much fodder for those promoting conversion to another charter.

While Randolph-Brooks Federal Credit Union has always been committed to the credit union charter, we recognize that it will take only a few of the larger NPCUs to abandon their charter for the Credit Union Movement as a whole to be severely damaged (possibly beyond recovery).

Therefore, we believe that it is important for NCUA to provide some assurance to NPCUs that their decision to re-invest in the corporate system is a sound decision. One of the ways that the agency could contribute to this assurance would be to segregate the existing "legacy" assets of corporates so that future capital invested by NPCUs will not be subject to continued losses from the old assets.

Capital Issues

The provisions in the proposed rule that establish the time period allowed for a corporate credit union to reach the regulatory capital target ratios through a transition period of one to three years seem unreasonably short. We believe strongly that, given the existing financial condition of corporate credit unions and the far-reaching impact of the decisions that will be required to meet the regulatory capital requirements, this time period must reasonably be lengthened to a *minimum* of five years.

Likewise, the prohibition against replenishment of capital from NPCUs following a write-down of that capital is unreasonable. Given that write-downs are predicated on current accounting *estimates*, the Other Than Temporarily Impaired (OTTI) estimates for corporate credit unions could be overly conservative. Even if the estimates prove to be reasonably accurate, the losses to date have certainly been significant enough to dramatically impact NPCUs. The proposed regulation has taken away a corporate credit union's ability to recoup some of the impairment as the market stabilizes, because any

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recoveries in value on legacy assets will accrue to the TCCUSF and/or the NCUSIF, rather than to NPCUs which invested in the corporates and took the risk to do so. This experience will bring with it long memories on the part of NPCUs and could very likely further discourage their willingness to recapitalize the corporate credit unions.

We also view the retained earnings targets in the proposal as basically incompatible with the new Asset-Liability Management (ALM) criteria established in the proposed rule. The following section addresses these concerns.

ALM Requirements

It appears that the proposed additional spread test will only allow approximately three months of asset/liability mismatch. As we see it, this requirement will likely force a corporate credit union to dip down in credit quality in order to generate spread, instead of taking advantage of a beneficial yield curve that is steep and could have a longer life span. A dip in credit quality is exactly the opposite of what a corporate credit union should be doing. We do not see this as safe or sound and we encourage the agency to revisit this requirement. Perhaps, rather than using a three month mismatch, a mismatch of at least one year (and possibly up to two years) would provide corporates with the ability to meet testing requirements that would make the various mismatched instruments viable.

Likewise, the two-year Weighted Average Life (WAL) limitation will severely limit the products a corporate credit union can make available to a NPCU. At the same time, this requirement will hinder the ability of corporate credit unions to gain improved earnings from a steeper yield curve. Most NPCUs would like the flexibility to use longer term borrowings from corporates to help mitigate the interest rate risk on some of their longer term assets. This requirement will likely force many NPCUs to look outside the corporate credit union system to address mitigation of their interest rate risk. Forcing out of the system the very type of credit union business that is needed to build earnings will hurt the ability of corporate credit unions to earn their way out of their capital issues.

From our reading of what the agency has cited in its narrative regarding this part of the proposed regulation, one might be led to believe that NCUA is of the opinion that the current mortgage crisis was the result of interest rate risk issues. It is generally recognized and accepted that this was not the case. Rather, it was poor credit quality on mortgages, not interest rate risk, that was at the foundation of the present crisis. Thus, it is our opinion that the NCUA should give more weight to credit quality rather than imposing interest rate risk restrictions such as the three month mismatch and the two-year WAL.

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As credit quality of the underlying mortgages collateralizing certain investments is widely recognized to have been the primary cause of the losses that have impacted many banks, brokerage houses, corporate credit unions and others, we believe that NCUA should more directly address this issue. For example, NCUA and other financial regulators should work with organizations such as FNMA and FHLMC to put in place more effective loan underwriting standards that would be required of *all* originators and sellers of mortgages to these agencies. We recognize that this is not directly a part of this proposed rule; however, we are convinced that to avoid a future crisis, poor underwriting standards must be addressed.

We have one final point in the area of asset-liability management. The prohibition against redeeming share certificates above par would severely hamper the ability of a corporate credit union to offer longer term share certificates to NPCUs. This will very likely adversely impact the competitiveness of corporate credit unions in the marketplace. When compared to alternatives available to NPCUs, this prohibition could leave corporate credit unions with a marketability challenge that they cannot overcome as it relates to the share certificates.

CUSOs

The limitation on CUSOs offering primarily brokerage and investment advisory services will result in an unnecessary reduction in services to some NPCUs. In return, we find that there would be only a negligible reduction in risk. In fact, one of the reasons that corporates use CUSOs for certain types of services is to insulate the corporate credit union from risks associated with such services. The reduction of such risk is a benefit to the corporate. Therefore, we encourage this provision to be removed from the proposed regulation.

Representation

We agree with the proposed rule as it relates to term limits for directors and see value in such a provision. However, we *strongly* disagree with the potential limitation on indemnifying directors against liability exposure. With some former directors already facing litigation over this most recent crisis, it is quite unlikely that individuals will be willing to volunteer to serve as a director of a corporate credit union and face potential legal liability without having a basic provision for indemnification. We encourage the agency to allow for corporate credit unions to indemnify directors and purchase errors and omissions insurance to protect them from legal liability. Unless such a provision is allowed, the concept of the volunteer corporate credit union board of directors could become a thing of the past. In fact, without indemnification, we question whether even paying directors would attract good candidates.

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We also *strongly* disagree with the proposed rule's limitation of directorial candidates to CEOs, COOs, and CFOs of NPCUs. While we believe that such a restriction is well meaning, it is simply not reasonable to assume that persons in these positions are always better qualified than some in other positions who might have considerably more personal or career experience. Instead, we believe the agency should establish certain minimum qualifications for the director position, such as expertise and experience on liquidity, asset-liability management and the types of investments allowed for corporate credit unions.

Our final recommendation is for the agency to rewrite the proposed rule based on comments it receives and to release the modified proposal for comments. This subject is of such critical importance that it justifies another round of comments from interested parties.

In closing, we again commend the agency for its efforts to strengthen the corporate credit union system.

On behalf of Randolph-Brooks Federal Credit Union, please contact me if I can be of assistance in this matter.

Sincerely,

Randy M Smith

Randy M. Smith
President and CEO

cc: Chairman Matz
Board Member Fryzel
Board Member Hyland

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