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Members Heritage
Federal Credit Union

March 3, 2010

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

Re: Proposed Corporate Credit Union Regulation 704

Dear Ms. Rupp:

On behalf of the management and Board of Members Heritage Federal Credit Union, I thank the NCUA Board for allowing a comment period for the proposed corporate credit union Regulation 704.

Members Heritage is $258 million in assets, has 40,000 members, and serves primarily SEG's in central Kentucky and parts of Indiana. We are currently members of Kentucky Corporate FCU, Southeast Corporate FCU, Corporate One FCU, and MidAtlantic Corporate FCU.

We certainly agree that corporate regulation warrant revision. However, some parts of the proposal we must question.

<u>704.2 Definitions – *Available to cover losses that exceed retained earnings*</u>
To the extent that any contributed capital funds are used to cover losses, the corporate credit union must not restore or replenish the affected capital accounts under any circumstances.

As with most absolutes, "under any" causes concern. There may be circumstances, such as first returning to well-capitalized status that should warrant consideration of returning previous capital used.

Also, OTTI models are educated guesses/estimates at best. They should not be allowed to be the defined absolute loss. Permanent depletion of capital based on OTTI estimates seems unwarranted.

<u>704.3 Corporate credit union capital</u>
Effective [INSERT DATE 12 MONTHS AFTER DATE OF PUBLICATION OF FINAL RULE IN THE FEDERAL REGISTER], revise §704.3 to read as follows:
(a) *Capital requirements.* (1) A corporate credit union must maintain at all times:

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(i) A leverage ratio of 4.0 percent or greater;
(ii) A Tier 1 risk-based capital ratio of 4.0 percent or greater; and

It would seem more reasonable to allow ample time for conversion of accounts. The shorter time frame will not allow credit unions to reason through the longer-term commitments required under the new regulations and thus increase the fear of committing. More time should be allowed.

704.14. Representation
(3) No individual may be elected to the board if, at the expiration of the term to which the individual is seeking election, the individual will have served as a director for more than six consecutive years.

A nine (9) year term limit would be more reasonable.

704.8(h) Two-year average life
(h) Weighted average asset life. The weighted average life (WAL) of a corporate credit union's investment portfolio, excluding derivative contracts and equity investments, may not exceed 2 years.

The short term allowed will hinder payment of a reasonable dividend. Please consider revising this time limit to at least 3 and preferred 5 years.

704.8. Asset and liability management
(c) Penalty for early withdrawals. A corporate credit union that permits early share certificate withdrawals must redeem at the lesser of book value plus accrued dividends or the value based on a market-based penalty sufficient to cover the estimated replacement cost of the certificate redeemed. This means the minimum penalty must be reasonably related to the rate that the corporate credit union would be required to offer to attract funds for a similar term with similar characteristics.

This section appears to copy a process used by the Federal Home Loan Bank. It is over-restrictive and should not be included in the final rule. If included it may cause a burden to especially smaller credit unions.

The proposed regulation should increase the safety and stability of the corporate credit union system. However, please be careful not to overreact, causing eventual harm to natural person credit unions, especially preventing access of much needed funds. Also, please keep all of us informed as to the progress in handling the heavily devalued assets that remain on the books of several large corporate credit unions and U.S. Central.

Thank you for hearing our response and concerns to the proposed regulation.

Sincerely,

John Brubaker

John Brubaker
President Members Heritage FCU

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