GEORGIA FEDERAL CREDIT UNION

March 05, 2010

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

RE: Proposed Regulation 12 CFR Part 704

Dear Ms. Mary Rupp:

On behalf of Georgia Federal Credit Union (Charter # 12320), a $600 million "Natural Person" Credit Union serving more than 83,000 members across the State of Georgia, I am writing you with regards to the proposed Regulation 704 regarding Corporate Credit Unions and their structure. We appreciate the NCUA Board allowing us the opportunity to respond to the changes affecting the corporate credit union regulation.

While the proposed changes to NCUA Regulation Part 704 contains beneficial alterations that will reduce risk and supplement the value of corporate credit unions going forward (such as stronger capital standards, limits on investment concentrations, prohibitions on certain securities, and enhanced liquidity processes), if enacted as currently proposed, the regulation has a number of elements that would have a detrimental impact to both corporate credit unions ("**CCU**") and natural person credit unions (**"NPCU"**). Consequently, it would negatively impact the consumer; our member owners.

This proposed regulation needs to be modified or credit unions will face increased costs on services, fewer competitive investment options, and lower rates on deposits. The proposed rule contains several major changes which will significantly limit the value that CCU's will be able to provide NPCU's and therefore would potentially lead to the demise of the entire Corporate Credit Union Network.

<u>704.3 Corporate Credit Union Capital</u>

In light of the recent events regarding impairment of NPCU capital at many CCU's, unless a "viable" model is proposed, NPCU's **<u>will not</u>** recapitalize the corporate system. The model contained within the proposed regulation is not viable, sustainable, or within the realm of reason.

704.3(c) Perpetual Contributed Capital

The regulation should retain the prohibition against conditioning membership on the purchase of permanent capital. This should provide NPCU's time to continue many needed services provided by the CCU's while planning how and if they might recapitalize a particular CCU. If some type of capital membership must be considered, a NPCU should be provided a 1 year window to exercise an orderly termination of its services with the requiring CCU. This is crucial to ensure that NPCU's members are not placed in a position whereby their access to payment systems is altogether eliminated.

Also under 704.3, the decision to exercise a call feature for a CCU's perpetual capital should remain with the CCU. Prior approval from the NCUA should not be required. Other areas within 704.3 and 704.4 appear to grant the Director of the Office of Corporate Credit Unions an inordinate amount of authority and privileges which are quite subjective in nature with no appeals process. Please reconsider the powers vested by this Director and limit the actions of a subjective nature and provide a means of appealing the actions of the Director.

704.8 (c) Penalty for early withdrawals

Currently, a CCU may allow the redemption of its certificates by a member, even if the redemption price, due to falling rates, is above par; and pay a premium for this redemption.

The new rule, however, means that even if a CCU's certificate has a fair market value higher than book value and it is redeemed early, the CCU can not pay a premium even if it had a policy of doing so in the past. Many CCU's have created such a policy to make their certificates as attractive as Federal Agencies and to help NPCU's with liquidity needs. The proposed rule eliminates the CCU's ability to pay a premium on early withdrawals.

As this proposed change attempts to insure system liquidity, there are some unintended consequences to consider related to this proposed regulation, some of which will have the opposite effect.

- A CCU's certificates would be at a significant disadvantage to Agency issued debt in the form of Government Sponsored Enterprises (GSE). In the past, CCU's have been able to effectively compete based on yield, flexibility by structuring terms of the certificate to meet the needs of the NPCU, collateral value, and liquidity by allowing the redemption of CCU certificates at prevailing market prices just like an Agency or GSE Security. Taking away the CCU's ability to redeem the certificate at the prevailing market price handicaps the liquidity feature of such investments; this will place CCU's at a distinct disadvantage; something brokers of GSE securities will be quick to point out.

- NPCU's will be compelled to put longer term investment funds somewhere that will not penalize the credit union for early redemption due to liquidity needs. This, in turn, does the opposite of what the proposed change intends in keeping liquidity in the corporate system.

- In order for the CCU's to attempt to compete against other more liquid investments, they will have to compensate for the lack of liquidity by adjusting yields higher or their NPCU members will potentially move investments. It is very unlikely, given other parts of the proposed regulation, that the CCU's would even have the ability to afford this option. Again, this results in less attractive investments and thus provides less liquidity to the corporate network. Again, the opposite of what the proposed change intends.

- Reductions in term funding at the CCU's will cause them to maintain higher levels of short-term assets for liquidity and volatility limit conformity which reduces the CCU's ability to generate net interest income to build retained earnings.

- Additionally, such dependence on volatile daily and very short term shares with fewer long term assets to pledge as collateral would negatively impact the CCU's ability to fund NPCU lines of credit.

While the intent of this part of the proposal is to promote stability in corporate network funding, the resulting impact will have the opposite effect as term funding will move off the balance sheets of the CCU's. Additionally, it limits and hinders the CCU's ability to employ a safe and sound funding strategy. In all probability, certificates as a competitive investment would disappear and NPCU's would lose an essential investment vehicle.

Due to the unintended consequences, in our opinion, this part of the proposal should be completely eliminated and <u>allow the current rule to remain in effect</u>.

<u>704.8(e) & (f) Cash Flow Mismatch Sensitivity Analysis</u>

The proposed limitations placed upon a CCU through various NEV tests do not allow the CCU to generate sufficient interest margin to build retained earnings to meet the proposed capital requirements. If enacted as drafted, this proposal will inevitably lead to some combination of increased fees being charged to NPCU's and forced expense reductions that will adversely impact the level of service and support provided by the CCU's that NPCU's need and require. The rule should be revised to allow for CCU's to make sufficient income from the balance sheet to grow and invest for the benefit of all its member credit unions, while exercising an acceptable level of credit and interest rate risk.

We would urge the NCUA to change the proposed rule to incorporate a more realistic test of a 100 basis point credit spread widening and a 35% NEV volatility tolerance limit –and- reduce the shock for GSE securities (due to the unique nature of GSE securities).

704.8(h) Two-Year Average Life

Many securities such as SBA and FFELP student loans offer virtually no credit risk, are extremely liquid and have no caps; however, they generally have a weighted average life of greater than two years. This section proposes an immediate change towards creating higher credit and liquidity risk by placing an arbitrary limit on the maximum weighted average life of the CCU's portfolio of investments. Please consider lifting, or extending the duration of, this restriction.

704.8 (k) Overall limits on business generated from individual credit unions

If this section is enacted, this proposed change will drain liquidity from the corporate network system by forcing credit unions to place funds outside of the CCU network resulting in less efficient deposit processes and possibly larger risks for natural person credit unions (thus, posing a threat to the safety and soundness of the NCUSIF). This limitation places further regulatory constraints on CCU's that other regulated financial institutions are not required to follow. New regulatory restrictions, together with the bank capital standards that CCU's will be required to achieve, will hinder CCU's ability to compete in the financial services marketplace. It may also force a CCU into short-term borrowings with less favorable terms regarding price and maturity. This, in turn, would also be damaging to earnings.

Natural Person Credit Unions should be able to make their own assessments of the value and risk they want to assume and an arbitrary limit placed on CCU's should not be put into effect. Many NPCU's are currently flushed with liquidity and are looking to get the best return on those funds. While diversification is prudent, a 10% limit in today's market is not only arbitrary, but unreasonable (especially considering that overnight balances may fluctuate more than 25% in the course of a single month). This limitation would preclude the NPCU from investing additional funds in a higher yielding investment at a well run CCU and potentially forcing the NPCU into an investment with a higher risk profile –or- leaving the funds in overnight (ex. Federal Reserve) and losing potential income. In essence, the factors above would reduce earnings of the NPCU's and thus also impact products, services, rates and terms that would be available to the NPCU members.

Not specifically addressed - Treatment of Legacy Assets

We understand that NCUA is working on a plan as it relates to CCUs' legacy asset treatment and we feel this plan is a vital piece missing from this proposed regulation. In order for the industry to confidently move forward, NPCU's need assurance that additional capital infusions would be insulated from further losses related to the legacy assets. We, like many NPCU's, will **NOT** put more capital at risk until we are assured that the new capital is isolated from the legacy assets. Without that plan, it is difficult to fully and effectively analyze the possible affects of the proposed regulation.

Once NCUA discloses its plan for legacy assets, we respectfully ask for consideration of an extended comment period in order to respond to this plan once it's published.

Conclusion

The aforementioned areas cover our major concerns with the proposed rule, and we fervently hope that these comments will prompt the NCUA to reconsider parts of this proposal.

It is clear that NCUA staff has put an immense amount of thought, time and effort into a proposal that intends to fortify the corporate network and be of lasting value to all credit unions and ultimately our collective members. It is our hope and desire that the NCUA will provide a regulation that will successfully allow the corporate credit union system to provide vital services to the NPCU's, and we anticipate that our comments and suggestions, along with those of our fellow credit union leaders, will aid in making this happen.

Again, thank you for providing us with the opportunity to respond to the proposed regulation.

Sincerely,

J. Kevin Durrance

J. Kevin Durrance
Executive Vice President/CFO
Georgia Federal Credit Union

Chairman, The Georgia Credit Union CFO Council

Vice Chair, CUNA CFO Regulatory Committee