



March 2, 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:

I would like to take this opportunity to express our appreciation to the NCUA Board for allowing us to comment on the proposed corporate credit union Regulation 704.

Park Community Federal Credit Union is \$450 million in assets, has 48,000 members, and serves the Louisville Metro area and underserved areas. We are currently members of Kentucky Corporate Federal Credit Union and Southeast Corporate Federal Credit Union.

While the proposed NCUA Regulation Part 704 contains some beneficial changes that will reduce risk and augment the value of corporate credit unions going forward, some of the proposed rule contains several changes which, left unchanged in the final rule, will significantly limit the value that corporates will be able to provide and therefore are not in the best interests of the credit union system.

704.2 Definitions – Available to cover losses that exceed retained earnings
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.

Many credit unions have lost significant monies due to the recent corporate situation. It is my belief that corporate credit unions will soon call on their members to recapitalize them. Under the proposed regulations, the NCUA prevents natural person credit unions from ever being made whole. I believe that it will be very difficult to convince many credit unions to recapitalize an institution that has already created very large losses for them. In reality, this action may cause corporate credit unions to lose members and create even more capital stress long term and presents a major concern.

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GAAP does not require the treatment being applied by the NCUA, which is covered in the Letter to Credit Unions 09-CU-10 and now included in the revised definitions in the proposed rule. Further, as part of its Accounting for Financial Instruments project, it is likely that the FASB will change the credit impairment model standards in 2010 to allow OTTI reversals as loss projections improve. NCUA regulatory accounting treatment should allow for the same accounting treatment as national standards and not permanently deplete credit union capital based on projections which will continually change.

704.3 Corporate credit union capital

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:

(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

We are also confused by this section of the regulation. We have been told in several of your town hall meetings that the "leverage ratio" would not become effective until three years after the final rule has been published. However, in this section of the regulation (pages 152 and 153), it states that this part of the regulation would become effective one year after the final rule has been published. We ask that you make regulation to reflect the three-year time frame, as it continues to be communicated to all credit unions by you, the NCUA.

In addition to the leverage ratio, we ask the NCUA to make the effective date of the Tier 1 risk-based capital ratio three years, the same as the leverage ratio. To require corporates to bring in new capital or at a minimum convert existing MCA to the new PCC could be difficult during a time when significant issues still remain with regards to legacy assets for some corporates. Raising contributing capital in such a short time frame will be challenging until corporate credit unions can demonstrate that their business model will succeed under the revised Regulation 704. Since it will be necessary to raise PCC for both the leverage ratio and the Tier 1 risk-based ratios, it makes sense to extend the effective date of both ratios to three years.

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.

We feel the suggested term limitation is too restrictive. It typically takes several years for a board member to receive adequate training and to fully understand the operations of a corporate credit union. Once the suggested term limit is instituted, there will be very

little institutional knowledge on a board with these limitations. Once a board member becomes knowledgeable of all corporate functions, s/he will be forced to step down. If the NCUA is determined to institute a term limit, a nine-year term limit would be more practical.

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 impact of this part of the proposed regulation negatively affects a corporate credit union's ability to earn an adequate yield on its investment portfolio. One way a corporate credit union adds yield to its portfolio is to move out the maturity spectrum. Securities with longer maturities or weighted average lives typically earn higher yields to compensate investors for the additional interest rate risk inherent in the longer term. The current NEV testing required of corporate credit unions adequately measures and limits this risk. This WAL restriction will lower the yield a corporate credit union will be able to earn on its portfolio and will lead to lower rates available to natural person credit unions on corporate credit union certificates. We might note that this will be a significant competitive disadvantage to the banking industry; credit unions will be much more restricted in their investing choices than other deposit takers in the U.S. economy.

A second effect from this part of the proposed regulation will be on the asset mix of a corporate credit union's investment portfolio. This weighted average life limit will make it very difficult for a corporate credit union to invest in agency mortgage-backed securities (MBS). While we realize MBS are the cause of the corporate losses, it was the private issue, non-agency mortgages that were the problem. Agency MBS are highly liquid instruments that can be easily sold if liquidity is needed. Unlike non-agency MBS, agency pass-through securities have very low credit risk and pose very little risk to a widening of credit spreads. There are very active and liquid markets for borrowing using agency MBS as collateral should liquidity needs arise. Had U.S. Central or other corporates bought agency MBS, my credit union would not be experiencing large insurance premiums or writing off our capital at my corporate. Agency MBS, used properly, are a prudent investment alternative for corporate credit unions.

We urge you to amend this section to allow a weighted average life of 3 years and that Agency and government-guaranteed securities be treated separately with a longer weighted average life restriction of 5 years.

Ability to grow retained earnings under the proposed investment and ALM limitations

Pages 99-101 of the NCUA proposed rule preamble contains an example of the ability to

grow earnings under the proposed investment and ALM limitations. We believe this example does not represent an attainable or realistic outcome. The NCUA's example does not include any cost for new capital that must be attained. This capital should be well above market rates thus causing lower net income than reported in the NCUA's example. The assumptions on spreads and other factors appear to be unreasonable or unachievable. We ask that you review the example provided and verify with outside sources to ensure these regulations allow for a viable business model for corporate credit unions.

704.8(k) Deposit Concentrations

(k) Overall limit on business generated from individual credit unions. On or after [INSERT DATE 30 MONTHS AFTER DATE OF PUBLICATION OF FINAL RULE IN THE FEDERAL REGISTER], a corporate credit union is prohibited from accepting from a member or other entity any investment, including shares, loans, PCC, or NCAs if, following that investment, the aggregate of all investments from that member or entity in the corporate would exceed 10 percent of the corporate credit union's moving daily average net assets.

The stated objective for limiting deposits from any one source to no more than 10 percent of a corporate's assets is to reduce risks that arise from placing undue reliance on a single entity. However, by limiting funds from any one source to no greater than 10 percent of a corporate's assets, the proposed regulation would:

1. Force funds out of the credit union system.
2. Penalize corporates that acted responsibly with their members' money.
3. Deny credit unions their ability to invest in institutions they deem appropriate.

If this limit is imposed, it is likely that credit unions will withdraw funds from the system. A credit union can choose to invest an unlimited amount of funds in a bank if they conduct proper due diligence. A credit union should have the right to choose in which financial institutions it places its money.

This part of the regulation should be removed.

Legacy Assets

This regulation does not address the non-performing investments that U.S. Central and some corporates hold on their books today, but requires new capital to be raised by members in order to stay in business. Corporate's future is clearly in the hands of the NCUA for many years to come because of the new capital standards and the new PCA requirements. To those credit unions willing to further capitalize the Corporate in the near future, this is not a comfortable position for corporates or existing members. NCUA's delay in detailing their plans for these "legacy assets" causes a corporate to

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defer any decisions or plans to move forward until this is resolved. These delays could cause issues for our corporate to meet the several capital goals in the near future, as mandated by the regulation.

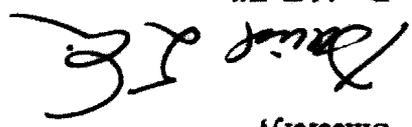
SUMMARY

There are many good proposals in these regulations in its current state, including: raising the capital requirements for entities with higher investment risks; reducing the use of short-term funding to finance longer term assets; and improving portfolio diversification. These provisions should remain.

There are also serious issues that must be addressed, as listed above. Any one of these new rules on its own could cause a major change to the operations of corporate credit unions and could threaten their future existence.

Thank you for providing us with the opportunity to respond to the proposed regulation.

Sincerely,



David T. Eib
President and CEO