From:	Rick Hassman
To:	_Regulatory Comments
Subject:	Proposed Corporate Regulation 704
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Response to NCUA Proposed Corporate Regulation 704

NCUA has had a difficult task of managing the fallout from the financial system meltdown. The task continues to be monumental and no matter the outcome the impacts will be far reaching for years to come. The bottom line is the number of credit unions are shrinking, which shrinks the base of organizations that can recapitalize the NCUSIF and the Corporate Credit Unions. This shrinking base puts pressure on the remaining institutions from a capital infusion, use of services and source of liquidity. We cannot capitalize everyone as we have our own regulatory and net interest margin challenges. Difficult choices based on regulatory requirements, capital requirements and cost of services will be made and I do not have confidence the Corporate Credit Unions will win if they are unable to obtain capital from non-member sources.

The following outline lists the primary concerns and questions that come to mind regarding the Proposed Corporate Regulation 704.

1. Legacy Assets and Corporate Capital Issues –
    a. NCUA needs to be upfront as to how the legacy assets will be handled and address the issue of corporate capital replenishment if the legacy asset losses are less than expected. If new capital was infused into the corporate, would that be applied against potential losses on legacy assets in the future?
    b. NCUA's mandated permanent depletion of Corporate Capital has caused many natural person credit unions to seek alternative providers to the services corporates offer. We refuse to recapitalize the corporates despite what NCUA is hearing and the corporates are saying because NCUA has taken our capital in advance of actual losses.
        i. Natural person CU's can obtain many if not all of the services from a variety of providers often times at lower costs with lower or no capital infusions required.
    c. Knowing the risks corporates have on their balance sheets coupled with the limited ability to generate retained earnings due to significant investment and loan restrictions in the proposed regulations, does NCUA really feel the new and improved business model will be able to provide the services and generate sufficient profitability to rebuild capital? What if the earnings are less than expected?
        i. We do not feel the new restrictions allow corporates to generate sufficient net margins to build retained earnings in an acceptable time frame, which means someone has to help recapitalize in order for the Corporates to achieve NCUA mandated capital compliance requirements?
    d. More clarification is needed on the legacy assets and this language postponed until additional guidance on how new investment capital would be handled.

2. Share Certificate premium language -
    a. Limiting corporates to early share certificate redemptions at the LESSER of book value plus accrued dividends or the value based on a market penalty creates a

significant disadvantage for corporates.

    i. As a credit union CFO, I intentionally place some investments so they are available in various liquidity scenarios. This language has taken corporates out of the game in this respect. I understand NCUA's intention to insure liquidity, however this will generate the opposite effect forcing NPCU's to place investments with other more liquid options that will reward NPCU's for investments that command a premium due to their yield.

b. This must be completely eliminated.

3. ALM modeling -
    a. ALM modeling is designed to help control and identify interest rate risk. ALM modeling cannot model default risks associated with credit and the potential liquidity risks arising from credit issues. The problems that many of the corporates are experiencing are specifically related to illiquidity created by unidentified credit risk.
    b. The intention to create a "matched book" will create a scenario where capital creation cannot occur. My concern specifically lies with the anticipation that NCUA will require NPCU's to match 30-year certificates with 30-year mortgages – this is not a viable approach for corporates or NPCU's.
        i. Has the new testing guidelines been tested against the shortened durations of investments and loans as proposed in the language?
        ii. Considering these new stringent guidelines, has scenarios been run to confirm that corporates will be able to generate sufficient income to build retained earnings?
    c. This additional NEV stress testing language seems very restrictive and should be removed.

4. Liquidity Requirements
    a. The proposed regulation fails to address the liquidity issue that has impacted so many corporates. Had the corporates secured and been required to have multiple sources of liquidity would NCUA need to borrow from the Treasury? Would the impact be lessened and the ability to "ride out the storm" reduced the need for HARP and SIP?
        i. Does a Central Liquidity Fund need to be created for corporates?
    b. Additional liquidity requirements needs added to the proposed regulation which requires corporates to have multiple sources so that the negative impacts of a credit crisis is limited and does not spill over creating a liquidity crisis at the same time. Sufficient liquidity protection would eliminate or at least greatly reduce the need to sell investments prematurely.

5. Basel I Capital Guidelines
    a. These seem reasonable, but as noted earlier, is the average life and matched book too restrictive to allow corporates to achieve the required retained earnings as outlined?
    b. Creating a model of capital = flexibility will allow corporates to take calculated risks. A system should be designed that allows greater loan and investment flexibility based on higher capital levels.

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