Altura
CREDIT UNION™

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Ms. Mary Rupp
Secretary of t he Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

RE: Comments on Part 704 Corporate Credit Unions

Dear Ms. Rupp:

It is not common for me to comment on proposed NCUA Board actions but there are several issues with respect to the Board's considered action that require me to send this letter. My principle concerns surround the following:

1. Issues involving Corporate Credit Unions; and,
2. Issues surrounding the definition of "total assets".

As a Member of Western Corporate Federal Credit Union, Altura Credit Union lost approximately $2.6 million of our Members' capital in the failure of Wescorp. This was a severe blow.

Having read through the comments offered by the California and Nevada Credit Union Leagues; specifically, their ***Critical Issues of Concern,*** Altura wholeheartedly agrees with the proposed recommendations. More particularly, here are some of the specifics with which we agree, as follows:

1. Time Period for Capital Ratio Attainment.

   The Leagues maintain that *"no credit unions will be willing to contribute additional capital in such a short time frame, and in such an uncertain environment."* As suggested by the NCUA, such a conclusion is certainly accurate from the perspective of Altura Credit Union. As a result, we join our Leagues in recommending that NCUA clarify its intention with respect to the time period for capital ratio attainment. Given the unavoidable reality that credit unions will need longer than one year before they will feel comfortable recapitalizing corporates, the Leagues have urged NCUA to recognize that: (a) some kind of financing or capital note will be required to meet corporates' operational needs; and (b) the proposal's time period for attaining the risk-based capital ratios must be extended to at least three years.

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2. **Retained Earnings Growth Model.**

Having reviewed the commentary, it is evident that NCUA is attempting to eliminate risk at the corporate level, as opposed to permitting corporate credit unions to manage risk. As a result, we join the Leagues in asking NCUA to provide independent, third-party "proof of concept" validation of the Agency's business model presented in the League's proposal. A proper assessment must do more than just "test the math". A credible assessment will test the assumptions and ultimate viability of the proposed business model.

Given the severe risks posed to natural person credit unions and the share insurance fund, we recommend NCUA consider the unintended consequences of pushing the investment function down to natural person credit unions that, for the most part, lack adequate expertise to safely manage investment portfolios.

3. **Legacy Assets in Corporate Credit Unions**

This is a key element and we agree with the assertion of the Leagues that "no investor will invest unless the toxic assets are segregated so that new capital is not at risk."

The Leagues strongly urge the NCUA to cooperatively and transparently address the business and regulatory issues associate with these assets so that corporate credit union balance sheets can start with a clean slate rather than from a negative position.

4. **Risk-Based Net Worth for Natural Person Credit Unions**

We agree with the Leagues and urge the NCUA to exercise its regulatory authority to update the capital framework for natural person credit unions to align with the broader financial sector by extending risk-based net worth to natural person credit unions.

Following are ***Some Other Areas of concern.***

5. **An Extra Line of Defense between Corporates and Natural Person Credit Unions.**

The challenges Natural Person Credit Unions have faced in light of the failures within the corporate system, have been severe and they underscore the inter-dependencies that exist throughout the entire credit union system. The inter-connectedness of each credit union to the other - *long perceived as a strength of our system* - could, in the end, bring us down.

The Leagues raise a key point: Under FHL Banks' newly formed regulator, the Federal Housing Finance Agency (FHFA), capital adequacy in this period of financial sector and economic distress has been measured by "regulatory capital" instead of GAAP-based capital. "Regulatory Capital", according to SubsidyScope, does not count the losses that a FHLBank suffered on its mortgage-backed securities. Thus, the FHLB of Seattle, was allowed to state a capital position of nearly $3 billion with only $960 million in GAAP-based capital. This critical tool of regulatory capital created an effective "line of defense" between investors and those FHLBanks that held problem assets.

So, we also agree with the Leagues' that the NCUA should utilize its regulatory authority to redefine the definition of "total assets" as specified under Prompt Corrective Action, to exclude guaranteed or low/no-risk assets from net worth ratio calculations. Per the Leagues' recommendations, the following assets would be excluded from "total assets" for the calculation of "net worth":

- Cash
- Overnight investments in corporate credit unions
- CU SIP deposits in corporate credit unions
- Corporate CU certificates
- Insured institutional certificates of deposit
- Guaranteed student loans
- Share secured loans
- Guaranteed portion of SBA loans
- Shares and loans guaranteed by the government
- Other government/recourse loans
- Accrued interest of non-risk investments
- Loans purchased from liquidating credit unions
- Assets held with options to sell to the government
- Loans under Corporate CU Loan Guarantee Program
- GNMA.FNMA/FHLMC (GSE) securities/bonds
- U.S. Treasuries
- Furniture, fixtures, and equipment
- Land and buildings

From one credit union's perspective, I can vouch for the value such changes would have for us.

These are perilous times for all credit unions and our dependence upon the judgment and actions of the NCUA have never been more critical. I hope you will look favorably upon the thoughts of the League's and the needs of our natural person credit unions and help us to preserve our place in the nation's financial future.

Respectfully,

Mark Hawkins
President/CEO