

Star of Texas Credit Union
114 E Huntland Drive
Austin, TX 78752

March 2, 2010

The Honorable Debbie Matz
Chairman, National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

The Honorable Gigi Hyland
Board Member, National Credit Union Administration

The Honorable Michael E. Fryzel
Board Member, National Credit Union Administration

RE: Star of Texas Credit Union Response to Part 704 Corporate Credit Unions

Dear Chairman Matz, Board Member Hyland, and Board Member Fryzel:

Star of Texas Credit Union would like to respond to NCUA's proposed changes to Part 704 regarding corporate credit unions. Star of Texas Credit Union is located in Austin, Texas serving approximately 4,000 members. We are members of Southwest Corp and highly depend on their services.

As we in the credit union industry are well aware, the Corporate System has served credit unions for many years. It's only focus has been to meet the needs of its members (natural person credit unions). We strongly believe that a fully functioning corporate credit union system is both necessary and vital to the success and survival of natural person credit unions, most especially small and mid-sized credit unions.

For most credit unions, current market alternatives in general are not as cost-effective, nor service-oriented, nor as reliable as the current corporate system is, in providing these services. Being a small credit union, Star of Texas Credit Union, as well as other small and mid-sized credit unions, do not want to be forced into dealing directly with Wall Street or the Federal

Reserve or other entities should the corporate credit union system cease to function for our benefit or at a cost that we can not afford. Banks have let us know in the past that they do not want to service credit unions.

We all have a critical stake on the outcome of the final rule. There are several NCUA proposed rule changes that we feel are pertinent in limiting the corporates' exposure to risk. These including: stronger overall capital requirements such as a base capital of 4% and new ratios, concentration limits by investment sector to prevent risk concentration such as what occurred with mortgage-backed securities, tighter limits on single obligators, enhanced liquidity requirements, and prohibitions on certain higher risk securities.

We all understand that the impaired mortgage backed securities (via OTTI) and mark-to-market accounting which caused most of the losses (and resulting GAAP-required capital depletions at natural person credit unions like yours) must be dealt with first and foremost -- before Texas credit unions would be willing to invest further or replenish corporate credit union capital shares.

The following are issues that we would like to comment on and ask that NCUA would reconsider changing:

- We do ask that you consider providing more time to allow for necessary recapitalization. To recapitalize and restore retained earnings (RUDE) at the level and timing sought by NCUA can only be done so "on the backs of" natural person credit unions, in the form of higher fees for services and spreads, etc. If corporate credit unions are forced to produce retained earnings, in a poor economy, in a constricted time span, they may be forced to inflate prices that were competitive but may no longer be – causing credit unions to re-think their decisions to use the corporate based- competitive strength on pricing. This balancing act will be critical to achieving success. It is suggested that the time to meet the minimum capital levels be moved from the suggested 1 year to 3 years from the effective date of the regulation.
- We feel that trying to eliminate every conceivable risk in the corporate system would render the corporate business model unworkable. Whatever failings occurred, the wrong conclusion is to dismantle the entire corporate CU business model, or try to eliminate via rule all sources of risk as a consequence. The significant changes in several areas of the regulation severely limit the corporate structure's ability to generate income at a level sufficient to provide attractive rates of return to their member/owners, offset internal operating expenses, provide quality products and services, and allow for capital accretion
- Credit unions continue to express interest in recovery if the legacy assets perform better than expected. NCUA has asserted that GAAP does not permit this in the form of capital return. We ask that NCUA continue to pursue options for recovery.

- NEV analysis should be applied to the entire balance sheet, not just one type of asset. Corporates have routinely mismatched their balance sheet to enhance yield. While an adjustment to the acceptable levels of mismatch may be warranted, weighted average lives (WAL) of 2 years imply a fairly matched balance sheet and is too short in duration to allow corporates to generate an income stream sufficient to be competitive in the investment arena. If the market adjusts and prepayment speeds decline, WAL rises, extending the life of the asset and further reducing the NEV of the institution.
- Heavy reliance on a 300 bp may be unrealistic. While a 300 bp shift in the market may be possible over the short term as a result of a specific event, *a 100 bp shock applied to both sides of the balance sheet would be more realistic*. Assessing risk at a higher level might be helpful for analytical purposes but the volatility shift should be tied to the 100 bp result and acceptable parameters increased to a higher level.
- The Pro-forma offered by NCUA warrants review because it does not reflect the current structure of corporate balance sheets, includes greater levels of term money than corporates typically hold, and does not include expense for dividend payment for capital contributed by NPCUs.
- 704.8 (k) - Limits on corporates' ability to generate business would prohibit from having a single member or entity make up more than 10% of their daily average net assets (DANA). Corporate balance sheet size is driven, in part, by the level of liquidity held in NPCUs. Therefore, corporate asset size has a high level of volatility and can fluctuate greatly. This restriction would limit the capacity for corporates to borrow. This would, in turn, limit the amount of liquidity available for NPCU's to borrow from the corporate network. NPCUs would have to look elsewhere to fund their short term liquidity needs. Please remove the limit or raise the limit to a higher lever or exclude FRB, FHLB and Fed Funds from the equation.
- 704.8 (c) – Penalty for early withdrawal on corporate certificates. Corporates currently use a mark to market withdrawal penalty in an effort to replace the cost of the certificate being redeemed. Early withdrawal penalties are designed to control repricing of deposits in a volatile market. However without the ability to pay a premium, corporates can no longer offer a product competitive with the securities market prompting NPCUs to go outside the corporate structure for longer term investments. Issues also arise when corporates reinvest their certificate portfolios. If NPCU redemptions are significant, this can push the corporate into a redemption situation as well resulting in a loss of earnings for the corporate.
- The current mark to market approach has been successful both to aid the corporates in controlling their cost of funds and in generating additional income streams for NPCUs. Continuation of the current application is suggested.

- As a matter of principle and achieving cohesion in the credit union movement/industry behind a solution, we believe the proper role of NCUA continues to be to insure safety and soundness and to protect the integrity of the NCUSIF. We believe credit unions, not NCUA, should be taking the lead on operational issues such as qualifications to serve, term limits, and executive compensation issues. For example, NCUA's suggestion that members serving on the corporate Board of Directors hold specific titles does a disservice to Employees and Directors, especially of smaller credit unions, who may not hold a specific title but nonetheless have the expertise to contribute to the decision making process in a meaningful way. Similarly, a specific title does not guarantee the expertise to be a productive member of a corporate Board of Directors. Minimum education or experience requirements could be substituted for this title requirement.

Finding a workable solution is essential, and we thank NCUA for the hard work that went into the proposed rule, much of which we are in agreement on. Areas of concern needing revision are identified in our letter.

We thank you for the opportunity to express our views. I do believe that we share the need in keeping the credit union system stable, safe, and sound for decades to come.

Sincerely,

Frances C. Laurel, President