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March 5th, 2010

National Credit Union Administration
regcomments@ncua.gov
Attn: Mary Rupp, Secretary of the Board

Re: NCUA Proposed Regulation 12 CFR Part 704

Dear Ms. Rupp,

Navy Army Federal Credit Union management appreciates this opportunity to provide our comments on the aforementioned regulations aimed at restoring financial soundness and proper balance to the corporate credit union (corporates) system. We agree that changes are indeed necessary and appreciate all the efforts, research and time dedicated by NCUA staff in the course of preparing the aforesaid proposed regulation. Furthermore, we believe that the regulation's safe and sound business model contains some beneficial changes such as stronger capital standards, limits on investment concentrations, prohibition on certain securities and enhanced liquidity process that will most likely reduce risk and enhance the value of corporate credit unions.

However, upon carefully reviewing the Proposed Regulation 12 CFR Part 704 (proposed regulation), we feel that there are some major limitations in it that cause us a number of concerns. In our opinion, this regulation will have – in due course, a significant negative impact on Navy Army and all natural person credit union members (NPCUs) currently using (or 95% of as indicated by NCUA) corporate credit unions as their primary financial institution. A major component of the value proposition that corporates provide is balancing the demands of payment systems, liquidity, and investments. To maintain this balance, corporates offer full lines of account services, settlement services, payment and correspondent services, as well as short-term and intermediate-term investment and lending options to NPCUs. Eliminating any of these offerings reduces corporates' value as a cash management provider and will lead to significantly greater costs and eliminate options for NPCUs to conduct their business in a cooperative system.

Some of our concerns on the proposed regulation are as follows:

1 - The proposed rules are too strict for corporate credit unions to be able to survive and the retained earning rules – which are greater than many corporates have earned even during best of times, are not reasonable for corporate credit unions to be able to meet in the time frame required. Based on analyses that we have reviewed from multiple sources, proposed restrictions on the mismatch between principal cash flows of a corporate credit union's assets and liabilities

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will not allow corporate credit unions to generate sufficient net income to meet the new retained earnings requirements within the proposed phase-in periods. We agree with the corporates that if they raise fees in an attempt to meet these new requirements, NPCU's will be forced to consider non-cooperative alternatives for services such as items processing.

Retained earnings goals should be, in our opinion, between the examiners, management and Board of Directors of each individual credit union, or in other words, NCUA should not be able to subjectively determine alternative minimum capital standards. A corporate and its member credit unions need to be able to evaluate the stability of their corporate in determining the likelihood of being subjected to Prompt Corrective Action (PCA).

The proposed effective date for the two new risk-based capital requirements will require corporate credit unions to recapitalize before the potential for additional losses on corporate credit union "legacy assets" are known. We will strongly oppose recapitalization efforts if that newly-contributed capital is exposed to potential losses from legacy assets. We understand that NCUA is working on a solution to the legacy assets problem, but are not comfortable with NCUA assertions that credit unions should assume that future contributed capital will not be exposed to potential legacy asset losses.

2 A corporate credit union needs to have the appropriate resources to better manage its balance sheet while providing needed liquidity services to its member-owners. A corporate credit union should not have any borrowing term limit when the borrowing is for its own or its members' liquidity purposes. Limiting the weighted average life of Corporates' investment portfolio to two years should be eliminated from the proposal. This limits loans to two years and would cause one of two problems for NPCUs – paying higher interest and fees for a longer term loan or forcing NPCUs to turn to other financial avenues for funding. As a result of the current restrictions on corporate investment authorities, corporates are indirectly exposed to essentially the same investment risks through their holdings of securities backed by mortgage, auto loan and credit card receivables collateral. Therefore, rather than curtailing expanded investment authorities, NCUA should consider revising and extending the scope of its corporate credit union expanded authorities regime to facilitate more effective and efficient risk mitigation across the system.

3. We agree that Governance Board seats should be restricted to candidates with financial background to enable them to understand and question all aspects of corporate business undertakings. We would recommend that the titles of board members in which NCUA is proposing should also include Manager or Treasurer and to remove the section on the proposed regulation that prevents indemnity (in some cases), exposing volunteer directors and management to unlimited personal risk. This could result in extreme difficulty to find and maintain volunteers and management. Quality leadership is imperative for the future and preventing indemnity in certain situations may cause many capable leaders not to participate.

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Furthermore, we would like to recommend expanding the proposed Board term limit from 6 years to 9 to 12 years to allow the serving board membes to acquire crucial knowledge that only occurs over time. Lastly, the proposal should require boards and board members to adopt best practices related to attendance, training, self assessment and review. This would provide board members with stable experience, institutional intelligence and maintains corporate organization history to alleviate safety-and-soundness for NCUA and credit union industry as a whole.

Sincerely,

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