GROSSMONT SCHOOLS
FEDERAL CREDIT UNION

March 5, 2010

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

Re: Proposed Regulation 12 CFR Part 704

Dear Ms. Rupp:

NCUA Board has drafted significant proposed regulation to re-make the nation's corporate credit unions. This regulation will affect a large number of natural person credit unions. Many of these institutions depend upon the corporate system and the services they offer. Preliminary research for my credit union finds that going to other institutions would raise my costs without any increasing value.

I am not against some reform to the regulations. In reviewing Call Reports, it is clear that some corporates invested an inordinate amount in mortgage-related products. One could argue that had some reform been done previously, we would not be in this position where the NCUA conserved two of the corporates. However, it needs to be well written, transparent and allow corporates to succeed. I am sure that you welcome an open and vibrant discussion that leads to that end.

Here are my primary concerns:

704.3 Capital
I would like some more clarity on re-capitalization and the legacy assets. I know that the NCUA would like all the corporates back to a healthy capital level in a short amount of time. However, with the constraints on earning placed by section 704.8, I find it hard to believe that corporates can earn enough to get to required capital levels in one year. I believe that would force corporates to seek re-capitalization from their members. GSFCU is also committed to the corporate system even after writing off $577,397 in WesCorp and paying $95,599 towards corporate stabilization in 2009. However, until the treatment of the capital impairment of the corporates has been addressed, I would be reluctant to invest our member's dollars in any corporate credit union.

704.6 Concentration limits
As I said earlier, had corporates not had so much invested in mortgage-backed securities, perhaps they would be in better shape today. As your paper suggests, "... the current rule has not resulted in effective policies on sector investment concentrations." (Page 82) However, the current proposals could severely challenge corporates ability to invest short-term liquidity at reasonable rates. This will have the effect of reducing the overnight rates my credit union receives. Please change the definition of deposits in 704.6 (d) to include Federal Funds, or include Federal Funds transactions in the exemption from sector concentration limits. Also, please change 704.6 (c) to allow a larger single obligor limit of 200% of capital on money market transactions with a term of 90-days or less. An alternative solution might be to specifically allow a single obligor limit of 200% of capital for Federal Funds transactions sold to other depository institutions.

704.8 (c) Penalty for early withdrawals on corporate certificates
My credit union has invested in corporate certificates. I find them easy to execute, manage and do not buy them as a speculative instruments. I think that would be true of most natural person credit unions. I am not sure that this provision would affect me. However, only being able to lose on early withdrawals rubs me the wrong way. If I were to turn in an "in the money" certificate and only get par, I would ask who would get the premium. If it is a one way street, I believe

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that I would be due additional compensation or I would look at other alternatives. The possibility of gain only increases the attractiveness of the product and, in turn, the corporates' liquidity not the other way around. This proposal should be removed.

704.8 NEV sensitivity analyses
I have seen analyses that show that the proposed limitations placed upon corporates through various NEV tests do not allow the corporate to generate sufficient interest margin to build retained earnings to meet your proposed capital requirements. I think this section and the section dealing with capital growth do not work together. If you want corporates to build capital, they should be allowed to take on some risk. This section seems designed to eliminate all risk in the balance sheet.
I have been involved in Asset and Liability Management for 3 credit unions with assets ranging from $80m to $800m. USECU had a very large mortgage portfolio and used derivatives and sales to manage the portfolio. When I joined GSFCU, there were very little 30 year mortgages in the portfolio. The most common was a 15 year first mortgage. Different products and different credit unions act differently. This change seems to be trying to jam a square peg in a round hole. I would think that you would be more concerned with how the corporates were addressing risk rather than trying to eliminate it altogether. Another point is that it seemed to me that you were excluding derivatives from the shock tests. Maybe I have that wrong because they would seem to be instruments whose sole purpose is to reduce risk. Are we trying to determine an accurate rendering of a corporate's condition or trying to fail them?

704.8 (h) Weighted average asset life
Limiting the weighted average asset life of corporates to two years seems arbitrary to me. If a corporate had a portfolio with a two year WAL and rates rose extending the WAL, would they be forced to sell, perhaps at a loss? I think having different WALs for different asset classes makes more sense. The overall asset and liability match would seem to be more important. Also would limiting the WAL of the corporates shut them down as a borrowing option for members to only shorter terms? Corporates should be there to provide services to NPCU. Would this change cause them to choose between serving their members or conforming to regulation?

704.8 (k) Overall limit on business generated from individual credit unions
I do understand why a limit ought to be placed on the aggregate investment in a corporate that comes from a particular credit union. However, I think that there is a difference between '…a member or other entity". (Page 183) I ask you to consider allowing borrowings with a maturity of 30 days or less, from either the Federal Reserve Bank, a Federal Home Loan Bank, a Repurchase Agreement counterpart or a Federal Funds counterpart, in excess of 10% of the corporate credit union's moving daily average net assets, by eliminating the "or other entity" part of the proposed regulation. Alternatively, consider allowing a higher borrowing limit of as much as 20% of the corporate's moving daily average net assets from these entities.

704.11 Corporate Credit Union Service Organizations
I urgently request some clearer definition as to what will be permissible in the final rule. I am concerned that, in its current wording, the proposed rule will make it extremely difficult for corporates to find qualified CUSO partners with whom to offer credit unions the competitive products and services they need. If I were a third-party provider of a necessary service in which a corporate wanted to be a minority partner, I am not sure that I would allow the NCUA free access to my books, records, software and operations. Rather, I might pass at doing business with the corporate.

I want to see this change work the right way, and I hope that my comments, along with those of my fellow credit union leaders, will assist you in making that happen.

Sincerely,

Robert Nolan

Robert Nolan
VP Finance and Administration
Grossmont Schools Federal Credit Union

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