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March 4, 2010

Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria VA 22314-3428

Dear Ms. Rupp:

Thank you for the opportunity to comment on the NCUA Proposed Rule 12 CFR Part 704 dealing with corporate credit unions.

I would like to begin with a general comment on the proposed rule, but before I do, a little bit about my background may be appropriate. I have been CEO of CoVantage Credit Union for 20 years, and a director of Corporate Central Credit Union for almost 9 years. Over the years, I have come to appreciate the value corporates play in the credit union movement. In short, I believe corporates together with Leagues and CUNA, provide the glue that keeps the credit union industry vibrant and unified.

My concern with the proposed corporate rule is the regulation will make corporates significantly less relevant to natural person credit unions. This of course will diminish their importance and influence to the industry. Diminishing the role of corporates will not be good for the cooperative nature of the movement.

I believe my concern is justified because the proposed rule will severely limit what corporate credit unions can offer natural person credit unions. The limitations imposed will, I fear, result in natural person credit unions going outside the industry to get what they need. My question is will we be better off with thousands of credit unions each going their own way to find investment opportunities and sources of liquidity?

No one predicted the economic tsunami around the housing industry and the resulting devastation to some corporates when private label mortgage securities were decimated. However, I am convinced that if these corporates did not exist, our industry would be in a much worse position today. This is because without corporates, I believe a majority of natural person credit unions would have acquired private label mortgage securities on their own. Imagine what our industry would look like today, and how difficult it would be for NCUA to provide oversight to thousands of credit unions with significant realized and unrealized investment losses. (Natural person credit unions have all we can handle with credit risks during these tough economic times.)

I am not smart enough to know where the next economic bubble will appear. But, I sincerely believe it will be more manageable within a viable corporate network than at thousands of individual credit unions.

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Headquarters: 723 Sixth Avenue • PO Box 107 • Antigo, WI 54409-0107 • Ph. 715-627-4336 • Fax 715-623-3219
Branch Offices: Crandon • Shawano • Wausau • Rib Mountain • Weston • Crystal Falls, MI • Iron River, MI
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Getting to specifics, I believe the proposed corporate regulation will put too many restrictions on corporates. These restrictions will diminish the financial incentives to natural person credit unions to invest in and borrow from corporates. This in turn will diminish the cooperative nature of our movement as many credit unions go on their own resulting in even more risk. Therefore, I am respectfully asking the board to consider the following:

1. 704.8(f) – Cash flow mismatch modeling should allow the inclusion of contributed capital. This would allow corporates to strategically deploy assets to increase earnings potential. I suggest including perpetual capital as a 20 year liability and non-perpetual capital as a 5 year liability.
2. 704.8(f) – Cash flow mismatch modeling would require an instantaneous 300 basis point of spread widening on all assets and liabilities. This seems to be overly conservative because spreads on governments, government agencies, and government sponsored enterprises (including MBS) never approached this level during the recent crisis. If spread widening is going to be assumed at one given level throughout the balance sheet, then I suggest a more appropriate assumption might be 150 basis points. Perhaps an even more appropriate method may be to assign specific spread widening parameters based on the risks inherent in selected classes of assets and liabilities.
3. 704.8(h) - The 2 year weighted asset life limit will severely limit corporates' ability to offer term loans and term certificates. I suggest a 3 year weighted asset life limit.
4. 704.8(k) – The overall limit of 10% on business generated from individual credit unions may create a liquidity problem during times of tight liquidity. I recommend increasing this limit.
5. 704.9(b) – Restricting corporates borrowing ability to the lower of 10 times capital or 50% of capital and shares will reduce a corporate's ability to borrow at the very time when borrowing may be most necessary; when shares are low and natural person credit unions need liquidity, I suggest the limit be the lower of 10 times capital or 100% of capital and shares.
6. 704.9(b)(1) – Not allowing secured borrowing for more than 30 days will severely limit a corporates' ability to offer term loans to its members. I suggest allowing secured borrowings at terms matching the maturities of collateral pledged in the form of government, government agencies, or government sponsored enterprise securities.
7. 704.14(a)3 – Finally, in regards to governance, limiting director's time on a corporate board to only 6 years will create a leadership void. Speaking from experience, it takes years before most individuals have the knowledge necessary to assume a leadership role on a corporate's board. Accordingly, I suggest director term limits be set at 12 years.

In closing, I appreciate the Board allowing me this opportunity to comment on the proposed corporate regulations.

Sincerely:

Brian Prunty

Brian J. Prunty
President/CEO

BJP/mrr

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