The Wisconsin Credit Union League

One League, One Focus - Your Success!

Via email: regcomments@ncua.gov

March 5, 2010

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

Re: Comments of the Wisconsin Credit Union League regarding Proposed 12 CFR Part 704, Corporate Credit Unions

Dear Ms. Rupp:

The Wisconsin Credit Union League, serving 250 credit unions and over two million members, welcomes the opportunity to provide the following comments on Proposed Part 704, the rule governing corporate credit unions. This time of unprecedented financial turmoil has revealed that changes in the corporate system are necessary, and there are wide-ranging opinions about what those changes should be. Our credit unions appreciate having a voice in these important rule revisions.

We support the NCUA's review of the current rule, given the corporate credit union crisis of the past two years. However, we also believe that Wisconsin's natural person credit unions are best served going forward by continued access to settlement, payments, liquidity, investments, and other correspondent services provided through an entity that operates from the same framework as our credit unions themselves – entities they own and control. So although we support a corporate rule that will protect natural person credit unions from the risks and costs they have recently faced, we also believe that any corporate that can capitalize adequately, operate efficiently, invest safely, and provide the services our credit unions need, at an affordable price, should be given a fair opportunity to compete and continue in business.

This being said, we comment specifically on the following aspects of proposed Rule 704 that we believe should be modified to enhance the likelihood of preserving this fair opportunity:

1. *The legacy assets and capital replenishment issue.* Although this issue is not addressed in the proposed rule, we encourage the NCUA to deal with the issue concurrently. Knowing how the NCUA intends to handle the toxic investment securities remaining on corporates' books is vital to realizing any lasting, consequential changes to the corporate system. These assets continue to create instability in the system, and are a disincentive to credit unions providing future capital contributions. To have confidence in investing in any corporate, a natural person credit union needs to know whether there will be future losses from current corporate credit union assets. We believe that failure to address this issue invites the weakening of even currently stable corporates.

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2. *Permitting arbitrariness in capital level requirement.* The proposed rule contains required capital levels that are considerably higher than the current ones and there is general consensus that a majority of the corporates will face a significant challenge reaching them. But in addition, the NCUA also reserves to itself broad authority in several areas to require additional capital or to re-balance the risk-weighting of assets of a particular corporate. A significant value of any regulation comes from the certainty it provides to both the regulated entity and its stakeholders of just what the rules and standards are. The parts of the proposed rule that permit broad and potentially arbitrary authority to change the rules for a particular corporate will undermine any corporate's ability to know or state with certainty whether its capital position is sufficient.

3. *Limiting the weighted average life of a corporate credit union's aggregate assets to two years.* Such a requirement will have adverse implications for Wisconsin's natural person credit unions seeking to fill liquidity needs with term loans from their corporate. The proposed provision would limit most of the loans made by a corporate to shorter-term maturities. A corporate would have to increase the rate offered for longer-term loans to compensate. As a result, long-term financing to natural person credit unions may be significantly reduced and will come with a much higher borrowing cost. In addition, many natural person credit unions use longer term borrowings to mitigate interest rate risk. A limitation on borrowings from corporates to two years would take away an important tool for these credit unions. As there are many high quality, moderate average life assets available that would not add undue risk to a balance sheet, the harm of this limitation to natural person credit unions is not necessary.

Moreover, if it becomes too difficult for credit unions to invest in term products from corporates, they will be forced into the public markets. Many smaller credit unions, in particular, are not well equipped to analyze securities, and cannot afford the personnel or systems necessary to manage such investments prudently. The proposed rule, as written, may actually push some credit unions into riskier investments.

4. *Penalties for early redemption of corporate certificates*. This proposed provision effectively limits a corporate credit union's ability to pay a premium on early redemption of term certificates. Such a change will pose a significant disincentive for member credit unions seeking liquidity. Many smaller credit unions take advantage of a non-penalty option to manage liquidity, especially if they do not invest in securities. Such a change will also have the effect of increasing corporates' funding costs. As a result, corporates' institutional funding market for term certificates will be severely impaired, which will in turn lead to a significant reduction in overall liquidity in the corporate credit union system.

5. *Governance issues.* We support the provisions of Proposed Rule 704 mandating that a majority of corporate directors are from natural person credit unions and that they have certain minimum credentials. We do note that we see merit in permitting an outside director who, for example, has financial expertise to lend to a corporate board.

In addition, we believe that the provision limiting a corporate's board members from serving for more than six years is too restrictive. Trust in the industry and institutional expertise of a corporate's board is vital, and automatic removal after just six years may undermine that trust. Limiting everyone, no matter his/her continuing contributions, to a six year term takes the will of the corporate's members out of the equation entirely. This may discourage qualified people from volunteering and force turnover at a time when the membership is depending on seasoned and dedicated directors. We recommend removing the term limits from the rule and leaving the length of time a director can serve up to the member/owners of each corporate.

In closing, we urge the NCUA to consider the effects of these proposed rule changes, including potential unintended consequences, both on successful corporates and on natural person credit unions of every size – though perhaps especially on smaller ones. Thank you for the opportunity to comment.

Sincerely,

Brett A. Thompson
President and CEO
The Wisconsin Credit Union League

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