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March 5, 2010

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

Dear Ms. Rupp:

Midwest Corporate Federal Credit Union (Midwest Corporate) appreciates the opportunity to comment on the National Credit Union Administration (NCUA) proposed regulation for corporate credit unions.

Midwest Corporate is a \$175 million corporate credit union (12-month DANA as of January 31, 2010) that serves as the primary correspondent financial institution for credit unions within the State of North Dakota and as a secondary correspondent financial institution for several credit unions outside of North Dakota.

Midwest Corporate provides traditional liquidity, investment, and correspondent services to its members including wire services, ACH services, overnight and term investment offerings, Certificate of Deposit brokering, lines of credit, and other services. While members have other options for most of these services, Midwest Corporate is the low cost provider for our members.

Midwest Corporate has waited to submit its comments on the proposed regulation so that we could review the comments from other corporate credit unions and interested parties in order to insure we had fully considered the consequences of the proposed regulation.

Midwest Corporate understands the need for the NCUA Board to promulgate new regulations in light of the events of the last three years. However, Midwest Corporate, in general terms, agrees with and supports the comments of the other corporate credit unions with regard to the proposed regulation in that the proposed regulation overreaches in an attempt to eliminate, or to significantly reduce, risks that will make it nearly impossible for corporate credit unions to meet the capital or ALM requirements of the proposed regulation.

Midwest Corporate has existed for 68 years performing the same mission that defines a corporate credit union today, providing a cooperative financial institution where its member credit unions can come together to pool deposits in order to avail themselves of lower cost services, better returns on investments, and a reliable means of credit. When the corporate credit union system was formed, Midwest Corporate (then known as North Dakota Central Credit Union) was a natural fit to the system and Midwest Corporate adopted the most cost efficient business model, that of a pass-through corporate credit union. As a pass-through corporate, Midwest Corporate relies heavily on the two tier corporate system with U.S. Central FCU (U.S. Central) as the wholesale tier.

While this pass-through business model enabled Midwest Corporate to actively compete in the marketplace, it did require a disproportionately high investment in U.S. Central capital accounts (to which the NCUA has

never objected to). The demise of U.S. Central's investment portfolio has now extinguished all of Midwest Corporate's capital accounts at U.S. Central and has forced a similar write-down of Midwest Corporate member capital accounts by approximately 86%. Midwest Corporate member capital accounts in the amount of \$948,775 is all that remains and it translates into 0.54% of Midwest Corporate's January 31, 2010 12-month DANA. This low level of capital means Midwest Corporate will need to raise significant member contributed capital if it is to continue in operation.

Overall, given the current proposed regulation, Midwest Corporate would likely fall into prompt corrective action in the near future and would need to rely on NCUA approvals to continue to operate, a situation that makes future planning difficult. Given that a large majority of corporate credit unions are in similar predicaments to Midwest Corporate in relation to complying with the proposed regulation going forward, Midwest Corporate asks the NCUA Board to take a step back after this comment period to reevaluate the appropriateness of the proposed regulation requirements, particularly in relation to the time it will take to build capital, the mix of allowable capital, and restrictions on taking reasonable risks under the ALM rules. After this reexamination, Midwest Corporate would ask for the NCUA to issue a revised proposal for comment so that a viable corporate credit union system can survive to serve the needs of the nation's credit unions.

We offer the following specific comments on the proposed regulation for corporate credit unions:

Corporate Credit Union Capital

Twelve months from publication of the final rule, a corporate credit union will be required to attain a 4.0% ratio of adjusted core capital to moving daily assets. For corporate credit unions that have depleted all of their undivided earnings and a significant portion of their member capital accounts, such as is the case with Midwest Corporate, that corporate will need to raise contributed capital to meet this requirement. In doing so, corporates will likely desire to raise Perpetual Contributed Capital (PCC) since it will be needed only a few years later to meet leverage ratio requirements. Given that PCC will need to be raised, 12 months to complete a business plan for the future based on the new regulation, educating the membership on the new business plan, developing a PCC offering, and having members determine if they will commit to the PCC offering will likely take 18 to 24 months. *Therefore, Midwest corporate believes that the initial Leverage Ratio, the Tier 1 risk-based capital ratio, and the total risk-based capital ratio should not be applied until twenty-four months from publication of the final rule and that the current waiver on capital requirements be extended until the new Leverage Ratio takes effect.*

The proposed rule also requires a portion of the Leverage Ratio be in the form of undivided earnings at increasing levels over time. Midwest Corporate understands the desire of the NCUA to have corporate credit unions build undivided earnings in order to reduce the risks associated with having contributed capital subject to future losses. However, considering the historic low levels of earnings by corporate credit unions, the current rate environment, and restrictions the proposed regulation places on a corporate credit union's investment portfolio, we believe it will not be possible to achieve the desired levels of undivided earnings in the timeframes noted. Among the most likely effects of trying to achieve those timeframes will be corporate credit unions being forced to offer below market rates on deposits and higher than market fees for correspondent services, as well as, taking on more investment credit risk in order to improve returns. These effects will undoubtedly lead members to look elsewhere for services, or, will lead members to refrain from placing contributed capital of any kind in corporate credit unions. *Midwest Corporate recommends that the timeframes to achieve the desired levels of undivided earnings in the Leverage ratio be extended by two to three years.*

Prompt Corrective Action

Several sections of the proposed regulation regarding Prompt Corrective Action (PCA) empowers the NCUA with too broad of a subjective authority that seems inappropriate for any regulator. A regulated entity should have a clear understanding of the standards under which they operate. Specifically, Section 704.4(d)(3) gives the NCUA the authority to downgrade a corporate credit union's capital adequacy simply due to one of the many CRIS rating system categories being rated other than a one or two. Since there is examiner discretion in some of the categories, this appears to be a potential area for regulator abuse of its authority. In addition, Section 704.4(d)(4) empowers the NCUA to modify the criteria for the five categories of capital adequacy for "good cause". Such a vague phrase gives a corporate credit union no basis to object to any downgrade of a capital adequacy category. *Midwest Corporate recommends that the NCUA review the entire PCA section and remove these vague and subjective authorities, or at least write some specificity to the authority the NCUA is giving to itself.*

Investments, Credit Risk Management, and Asset Liability Management

Midwest Corporate will not make specific comments in these areas, but, instead we encourage the NCUA to address the numerous problems created in these sections of the proposed regulation (Sections 704.5, 704.6, and 704.8). The specific problems in these sections have been more than adequately documented in other corporate credit union comment letters. Without significant revision to these sections, Midwest Corporate believes that nearly all, if not all, corporate credit unions will not be able to comply with the ALM requirements and will be unable to generate sufficient income to meet the new capital standards.

Midwest Corporate would like to address one specific section, Section 704.8(k) – Overall limit on business generated from individual credit unions. This section would limit a corporate credit union from accepting aggregated deposits from any one member that would exceed 10% of the corporate credit union's own moving daily average net assets. This seems to be a solution to a problem that does not exist. Virtually all corporate credit unions have always monitored deposit concentrations from its members as part of sound liquidity and capital management. To our knowledge, maintaining large deposit concentrations from a few members has not of itself led to any corporate credit union failing due to it causing a liquidity crisis or earnings issue. *Midwest corporate believes that this is a risk management issue that should be assessed by the NCUA during regular examinations and any appropriate corrective measures can be handled in the same manner as any other examination issue. We believe this restriction is inappropriate as a regulation and should be removed from the proposed regulation.*

Corporate Credit Union Service Organizations (Corporate CUSOs)

Section 701.11 of the proposed regulation deals with Corporate CUSOs. As with natural person CUSOs, Corporate CUSOs can provide more flexibility in providing needed services to members and can be an avenue to provide services that may not be permissible as a non-profit cooperative. This structure also can provide legal protection to the corporate credit union under the corporate veil.

The proposed rule appears to give the NCUA expanded authority over a CUSO simply by virtue of a corporate credit union holding stock in a CUSO. Midwest Corporate fails to see why a Corporate CUSO should receive different NCUA supervision than a natural person credit union CUSO. In addition, the NCUA has chosen to limit approved activities of a Corporate CUSO to only two specific activities (brokerage services and investment advisory services). While Midwest Corporate understands the NCUA's desire to control a corporate credit union's activity in a CUSO, this seems to be another example of overreaching of the regulator. There are numerous other

activities that should have been listed in the proposed regulation (i.e. item processing). Giving the regulator the authority to arbitrarily deny the activities of a Corporate CUSO that would seem natural to the corporates purpose and business lines is unacceptable.

Midwest Corporate recommends NCUA eliminate the Corporate CUSO distinction in the regulation and just follow Section 712 of the NCUA Regulations, or at least the NCUA review the CUSO approved activities listed in Section 712.5 of the NCUA Regulations and incorporate at a minimum Subsections 712.5(a), (b), (e), (g), and (k) into Section 701.11(e) of the proposed regulation.

Representation

Section 704.14 of the proposed regulation institutes several new, unnecessary restrictions on who can serve as a director of a corporate credit union.

The two specific sections that Midwest Corporate takes issue with is Sections 704.14(a)(2) and 704.14(a)(3).

Section 704.14(a)(2) imposes limits on who can serve on a corporate credit union board based on an individual's position/title within the member organization/credit union. These positions must be the equivalent of a CEO, CFO, or COO. While Midwest Corporate understands the NCUA's desire to insure that individuals with appropriate backgrounds serve on a corporate credit union board, this arbitrary demarcation precludes a number of other highly qualified individuals from serving that may not hold these positions in a credit union (especially a larger credit union) and it precludes a credit union volunteer who may have held such positions in the past or who possesses extensive financial experience. For Midwest Corporate, potentially two current directors would not qualify under this section. *Midwest Corporate recommends that the NCUA revise the proposed regulation to indicate that a corporate credit union must establish a provision within their bylaws (which must be approved by NCUA or the state regulator) that sets a knowledge/experience standard that must be met in order to stand for election to that corporate credit union's Board of Directors.*

Section 704.14(a)(3) sets a six year term limit for directors of a corporate credit union. Midwest Corporate is not necessarily opposed to term limits, however, we are opposed to the six year term limit. It is widely accepted that it can take a couple of years for a director, regardless of their background, to become knowledgeable with the operations, finances, and issues that face a corporate credit union. Limiting a sitting director to six years can have the effect of forcing a director off the Board at a time they are becoming most valuable to the organization. If imposed upon Midwest Corporate today, this restriction would make all but one director ineligible for reelection. *Midwest Corporate recommends that this section be revised to allow a corporate credit union the option to establish (not mandate) term limits.*

Disclosure of Executive and Director Compensation

Section 704.19 of the proposed regulation requires the annual disclosure of compensation information of the executive officers of the corporate credit union and upon request of a member.

Midwest Corporate believes that this section is unnecessary and does nothing to add to a corporate credit union's (or any natural person credit union's) safety and soundness. We believe that retaining this section in the proposed regulation can actually hamper the recruitment and retention of corporate credit union executives.

Midwest Corporate recommends that the NCUA eliminate this section of the proposed regulation. Should the NCUA choose to not eliminate this section, we recommend that the definition of

“executive officers” be more specific and narrow. We also believe that disclosure of this information should be only given upon request and be limited to natural person credit union member CEOs and require that the CEO execute a non-disclosure agreement and that there be language in the proposed regulation that will prevent the NCUA from disclosing such information as well. This requirement would accomplish the NCUA’s desire to disclose compensation information to the members and minimize the issues that relate to recruiting and retaining qualified executives.

Thank you again for this opportunity to comment on the proposed regulation. We urge the NCUA to take the time necessary to insure that the proposed regulation in its final form will be a reasonable balance of limiting risks and allowing for a credit union correspondent system to succeed.

If you have any questions about our comments or recommendations, please contact me at (701) 250-3990 or via e-mail at doug@midwestcorporatefcu.org.

Sincerely,

A handwritten signature in black ink that reads "Douglas C. Wolf". The signature is written in a cursive style with a large, stylized initial 'D'.

Douglas C. Wolf
President/CEO

Copy: MCFCU Board of Directors
MCFCU Executive Staff
MCFCU Member Credit Union CEOs
Scott Hunt, Director, NCUA – OCCU
Andrew Numelin, Corporate Examiner, NCUA – OCCU