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

Dear NCUA:

The current corporate credit union environment is attributable to some of the corporate credit unions but not all. The proposed changes to Regulation 704 begin the monumental task regarding restoring trust involving the cooperative model.

It is clear from your proposal that NCUA prioritizes the purpose of a corporate to be payment systems first, then liquidity, and finally investments. Unfortunately, it was unclear whether the needs of natural person credit unions were considered in the document. Especially smaller credit unions who are dependant on the corporate system and would be impacted the most if the system collapsed.

Finally, significant issues regarding legacy assets and corporate guarantees were omitted from your document. Without a vision to bridge the industry from our current state to the desired future, the best of intentions will not materialize. The industry needs a comprehensive approach that addresses these topics also.

Specific items in your proposed regulation that I would respectfully request reconsidering include:

Credit Risk

The recommendations appear to reduce risks, which intuitively makes sense. However, the actual results could have unintended repercussions. For example, a 2-year average life and concentration limits should theoretically reduce risks. If corporates take other risks due to shorter average life or deposit funds with riskier banks because of concentration limits, alternative risks would have been accepted.

The proposed changes don't discriminate by investment type. Natural person credit unions have been told publicly that the current crisis involves mortgage-backed securities. Wouldn't it make sense to have different criteria/tests based on the investment type based on perceived risks?

The reliance on rating agencies implies that investments currently impaired were unrated. If so, there should be questions about the regulatory oversight. If not, there is

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a question about the reliability of the ratings. At a minimum, the purchase decision should not rely solely on such a consideration.

Liquidity

Natural person credit union liquidity needs aren't limited to 30 days. It appears the intent on this recommendation is to deter corporate investment practices; however, the impact would also include natural person credit unions. Did NCUA consider the needs of both natural person credit unions and corporates when drafting the recommendations?

Capital

Currently members can redeem capital with a 3-year notice; the proposal recommends making capital permanent. It appears that the regulation favors the needs of the corporate network over natural person credit unions. Did NCUA consider giving corporates flexibility to return capital if they meet your well capitalized threshold?

The industry is bearing the burden of impairment charge offs. If actual results are better than anticipated, it appears NCUA desires the impact goto retained earnings as opposed to the capital that was written off originally. This shifts the burden/relief of the crises from the original members to the entire industry. Wouldn't it make sense for the members who had to write off their capital benefit from any subsequent recovery?

Board Composition

The proposed changes imply NCUA's desire to determine that potential Board members are qualified and serve for limited terms. These recommendations impugn the voting membership. In addition, a six-year limitation would limit the experience of the Board. A corporate credit union is a complex organization. The first year on the Board is typically learning the intricacies of the entity.

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Thank you for the opportunity to provide input on the proposed regulation.

Sincerely,

Dan

Daniel Berry

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