March 8, 2010

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

Subject: Comments on Proposed Part 704 Corporate Credit Unions

Dear Ms. Rupp,

Eagle Community Credit Union appreciates the opportunity to comment on the proposed amendments to Part 704. We recognize and applaud the enormous time, effort and consideration NCUA has devoted to this endeavor and its desire to improve and strengthen the corporate credit union system.

Eagle Community Credit Union believes that corporate credit unions provide vital services to their member credit unions. We rely upon our corporate credit union, WesCorp, for the provision of settlement services, payment processing, imaged check exchange, investment services, consulting, and liquidity services. We have the ability to obtain many of these services outside the corporate credit union system and the competence to properly manage services delivery – but, at a significantly higher cost in terms of fees and staff time. Liquidity services however, may prove more difficult or at the least, very expensive, to obtain. We do not have a relationship with FHLB and, in fact, do not qualify for membership at this time (requirement of three consecutive quarters of positive financial performance). Our current CAMEL rating (which we will improve at our next examination) has resulted in the cancellation of our "daylight" line of credit at the Federal Reserve. When times are tough, options and sources of liquidity become increasingly limited and the need for support from the corporate credit union system is of heighten importance.

We fear that smaller credit unions have neither the ability to seek these services outside the corporate system nor the in-house expertise to properly manage these services. As smaller financial institutions they will not command a strong negotiating position or attract high quality service. They will be forced to engage the most simplistic investment products and to obtain liquidity at disadvantaged prices. They may have no choice but to turn to the very entities who have vowed to disembowel our movement, the banks. We believe that a vibrant, committed corporate credit union system is a benefit to all but absolutely essential to the existence of small credit unions.

Unfortunately, despite the well-intentioned time and effort expended, we believe that the proposed amendments are intently focused on risk avoidance rather than risk management. We strongly recommend that the NCUA guard against a "knee-jerk" reaction. To succeed, corporate and natural person credit unions must intelligently assume and manage risk. In our opinion, the assumption of a "Never Again" standard as indicated during recent town hall meetings serves neither the credit union movement nor our memberships. Clearly, such a standard applied to consumer lending, for example, is ludicrous. With a focus on risk avoidance rather than risk management, we suspect that the proposed amendments will ultimately result in the failure of the corporate credit union system and without corporate credit unions many small natural person credit unions will be unable to meet increased operating expenses and obtain the functional expertise needed to remain viable, ongoing concerns.

Specifically, we have concerns in the following areas (for ease of discussion we refer to our corporate, WesCorp, in the paragraphs below as inclusive of all corporate credit unions):

<u>Capital Ratio Attainment</u>: It is unrealistic to assume that WesCorp will be able to meet the requirement to attain risk-based capital ratio within one year via retained earnings. Consequently, the infusion of new capital will be necessary. Even assuming that the issue of legacy assets has been adequately addressed, no one we know will reinvest capital into the WesCorp until such time as they have fully implemented their new business model and demonstrated its potential for long term success. Given the improbability of that WesCorp will meet the capital requirements within the timeframe outlined in the proposal, it would be prudent for NPCUs to transition to other service providers and withdraw deposits. Such actions would lead to serious liquidity concerns and potentially exacerbate losses.

We recommend that WesCorp be given the opportunity to demonstrate the implementation of a successful business model prior to the need to solicit new capital. We believe that three (3) years would be realistic. In the initial three years, we suggest that WesCorp be held to moderate, attainable (but escalating) retained earnings standards.

<u>Retained Earnings Growth Model</u>: We do not agree with NCUA's assumptions regarding WesCorp's ability to grow retained earnings under the dictates of the proposed investment and ALM limitations and suspect that the illustrated models portray investment portfolios that are not palpable. Specifically, we think it unreasonable to apportion 30% of the portfolio to student lending and to assume that 75% of total interest income would be derived from this source. The proposed investment and ALM limitations represent the NCUA's intent focus on the avoidance of risk and present an unnecessarily narrow band within which WesCorp must operate.

We recommend revisiting the retained earnings growth model under more reasonable investment and ALM limitations that emphasize risk management vice risk avoidance.

<u>NEV Testing</u>: The amendment contains excessively stringent NEV testing. In our opinion, compliance with the NEV standards outlined within the amendments again highlights the NCUA's risk avoidance position.

<u>Credit Spread Widening</u>: The proposed spread widening of 300 bps is unrealistic in light of the fact that, excluding recent events, credit card and auto ABS credit spreads to LIBOR

widened to a maximum of approximately 50 bps and generated a standard deviation of volatility of approximately 10 bps.

We recommend setting the credit risk shock test at 50 bps - double the historical average – with a 35 % NEV volatility tolerance limit.

Weighted Average Life Test: The inclusion of loans to NPCU in aggregate assets subjected to a maximum two year weighted average life may seriously impede WesCorp's ability to economically attend to the long term borrowing needs of NPCUs. Consequently, NPCUs in need of long-term financing will be required to seek such financing outside the credit union movement at potentially disadvantaged pricing. In addition, WesCorp's ability to invest in agency MBS offerings may be severely impacted by the two year lmitation.

We recommend that loans to NPCUs be excluded from the aggregate assets subject to weighted average testing and that NCUA reconsider the viability of the two year limitation – via a focus on risk management vice risk avoidance. If, weighted average life testing is deemed prudent, we recommend that weighted average life limitations appropriate for specific asset classifications be developed.

Pre-Payment Speed Changes: We believe that the requirement to model a 50% slowing of pre-payment speeds is unrealistic – especially when coupled with a 300 bps shock test. Analysis of pre-payment speeds is already required without the imposition of limits elsewhere in Part 704.

We recommend that NCUA reconsider the viability of this requirement. If considered viable, we suggest more realistic pre-payment levels commensurate with the various assets types subject to the test.

Inability to Redeem CDs at greater than Par: We disagree with the proposed prohibition against the redemption of certificates at a premium. This prohibition renders certificates relatively illiquid and places them at a disadvantage to other investments, thus reducing their attractiveness as an investment option. Should NPCUs seek investments elsewhere in significant numbers, liquidity at WesCorp may be adversely impacted.

We recommend that this prohibition be deleted from the proposed amendments.

Board Terms: We believe that maximum Board terms should be determined by the membership. Certainly, given the tremendous learning curve associated with service on the Board of WesCorp, six (6) years is too short.

We recommend that limitations on Board terms be stricken from the proposed amendments. Board Terms shall be determined by the membership and codified in the Bylaws. In the alternative, maximum Board Terms should be no less than nine (9) years.

Transparency of Compensation: Member credit unions elect Board members to make decisions, such as compensation for the CEO. If we can't trust them (our elected officials) to make decisions in the best interest of the membership, shame on us.

We recommend that compensation transparency requirements be removed from the amendments or, in the alternative, transparency requirements relative to compensation should be no more intrusive that the dictates of IRS Form 990.

Payment of Dividends: Denying an undercapitalized corporate to pay dividends severely hampers its ability to attract new capital and may serve to perpetuate the undercapitalized condition.

We recommend that the decision to pay or not pay dividends be left to the corporate board of directors and that such decisions be dependent upon the achievement of retained earnings goals.

Overall Limit on Business Generated from individual Credit Unions: Including "or other entities" in the 10% limit may seriously impede WesCorp's ability to address short term liquidity volatility via the Federal Reserve or Federal Home Loan Bank. This limitation may force WesCorp to maintain excessively large amounts of cash which is inherently inefficient and would adversely impact earnings.

We recommend that this provision be specifically limited to individual credit unions and specifically exclude other funding sources.

Consolidation of Corporate Credit Unions: We recognize that consolidation of corporate credit unions is likely and prudent. We applaud NCUA for refraining from dictating a specific number of corporate credit unions and we suspect that the best methodology for the consolidation of corporate credit unions is the marketplace. Some organizations will recognize that they are stronger and more efficient as a single entity and they will unselfishly consolidate. Conversely, organizations that fail to develop and implement a successful business model and organizations unable to attract the necessary capital will be forced to consolidate.

We recommend that the NCUA continue to refrain from dictating the number of corporate credit unions. We further recommend that NCUA encourage and facilitate discussion among corporate credit unions on this issue.

Legacy Assets: We believe this horse is dead - that NCUA clearly realizes that the legacy assets issue must be resolved. We also recognize that legacy assets is a separate issue from the proposed amendments. But, at the risk of redundancy, we'd like to kick the horse one more time.

While we are resigned to the fact that there is no escape from incurred losses, we strongly encourage NCUA to devise a methodology to remove the legacy assets from corporate credit union balance sheets, recognize losses as they actually occur, and provide a vehicle to allow NPCUs the opportunity to recoup lost contributed capital in the unlikely event that loss expectations are not fully realized.

Extend Risk-Based Capital Requirements to NPCUs: Clearly no two credit unions are the same and we suspect that the arbitrary capital requirements outlined under PCA are insufficient for some and unnecessarily stringent for others.

We recommend that the NCUA consider development of risk-based capital requirements for NPCUs. In the alternative, redefine “Total Assets” utilized to determine capital for PCA purposes to exclude assets not at risk such as cash, guaranteed student loans, guaranteed portions of SBA loans, insured institutional deposits, US treasuries, etc.

Again, thank you for the opportunity to offer our comments relative to the proposed amendments to Part 704. We urge the NCUA to abandon its risk avoidance and “never again” position in favor of one focused on the prudent management of risk. We need and want a strong, forward-thinking, and vibrant corporate credit union system and we are grateful for your efforts to this end.

Bill Birnie
President/CEO
Eagle Community Credit Union