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SMW 104 FEDERAL CREDIT UNION

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

RE: **Comments on Credit Union Rules and Regulations- Part 704 – Corporate Credit Unions**

Dear Ms. Rupp,

Thank you for the opportunity to comment on the Credit Union Rules and Regulations – Part 704 – Corporate Credit Unions, which would make revisions to the structure of corporate credit unions.

While new regulations are necessary to strengthen the corporate system, there are several issues that I would like to issue comments on.

Capital Ratio Attainment Time Period

The one-year window required by the proposal to attain the 4% leverage ratio will require corporates to bring in new capital in the form of additional Perpetual Contributed Capital (PCC) at a time when significant issues remain resolved regarding the legacy assets. Many credit unions have questioned whether to contribute more uninsured capital after being forced to write off the old Membership Capital Accounts. Indeed, it would be difficult to convince most Board of Directors to throw good money after bad.

It seems that accumulating core capital to 2% after six years is not attainable. In the text, the NCUA assumes no growth in the corporates for five years. Since Natural Person Credit Unions (NPCU's) such as ourselves will probably be growing, we will be forced to invest outside of the corporate system to get to the 2%. NCUA's assumptions are not reasonable, and the outflow of funds outside of the corporate system would be detrimental.

Retained Earnings Growth Model

NCUA's model assumes that 30% of the portfolio invented in student loans. Private student loans are typically illiquid and are more volatile and of lower credit quality than securities backed by federal agencies. Secondly, it is doubtful that the corporates could

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fund enough securities to get close to the NCUA's assumption. Thirdly, why doesn't the model include mortgage-backed securities (MBS)? If NCUA overly limits the income capabilities of the corporates, then the corporates will not survive long term.

Weighted Average Life Limits

NCUA's cash flow weighted average life mismatch limit, combined with the aggregate weighted average assets of two years, will severely limit a corporate's ability to earn enough income to serve the NPCU's and be in compliance with the proposed capital requirements. If the corporates cannot maintain an adequate spread, they cannot possibly offer a market interest rate on their share products, liquidity would dry up, and the corporates would go out of business.

Corporate System Structure

We agree that a second tier such as U.S. Central is not necessary.

Corporate CUSO's

We are in favor of corporates owning CUSO's to provide services to NPCU's at a reasonable cost.

Corporate Governance

We agree with the proposal surrounding corporate governance. The six year term limit and qualifications are more than adequate.

Disclosure of Compensation and Limitations on Golden Parachute and Indemnification Provisions

We support transparency for senior executives, that is for CEO and senior executives that report directly to the CEO. We are against golden parachutes and indemnification provisions.

Perpetual Contributed Capital

We use our corporate for a variety of electronic processing services and have no problem with paying a premium in exchange for not contributing at-risk capital. It is doubtful that we will be contributing capital to a corporate after losing over $750 thousand in 2009.

Federal Funds Concentration Limits

Federal funds investments are not specifically excluded from the sector concentration limits. As a result, corporates will have severely limited access to the fed funds market. Since fed funds are overnight investments with very little risk, we recommend that they

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be included with a reasonably large limit, such as 150% of total capital on transactions with a term of 90 days or less.

Separate Corporate Credit Union Share Insurance Fund

A separate corporate share insurance fund is not included in the proposed regulations. We [illegible] with a separate [illegible]. Then the corporates with riskier portfolios would have to pay more into the share insurance fund.

We appreciate the opportunity to comment on this proposed regulation and thank you for consideration of our views.

Sincerely,

Rick Hanen
CEO
SMW 104 Federal Credit Union

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