



MAR 12 '10 PM 12:36 BOARD

*Robert R. McKenzie, CCUE
President and Chief Executive Officer*

March 8, 2010

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

RE: Response to Proposed Rule for Corporate Credit Unions (12 CFR Part 704)

Dear Ms. Rupp:

I am writing on behalf of North Carolina Community Federal Credit Union concerning your request for comment on the above-captioned matter. We appreciate this opportunity to respond.

Let me begin by stating that we agree that some significant changes are required for the corporate system to remain viable. In reviewing the proposed amendments and revisions, we note that several will provide for a much-needed enhancement of corporate credit union safety and soundness measures. However, some proposed changes will, in all likelihood, significantly reduce the effectiveness of those corporate credit unions that remain. Our comments are as follows.

The loss of capital as required by NCUA is not equitable. Any recoveries should be returned to the natural person credit unions (NPCU) that were compelled to write off their investments in their individual corporate credit unions

NCUA is proposing a 30-day term borrowing limit for corporate credit unions (CCP), while significantly limiting borrowing for the sole purpose of maintaining a satisfactory level of liquidity. The 30-day limitation would not allow a corporate to match-fund term loan requests from member credit unions, ultimately creating a negative impact on its interest rate risk. Accordingly, member credit unions' access to term borrowing from a corporate credit union will be seriously limited. We believe borrowing for "liquidity purposes" includes both the needs of the corporate and its members. The 30-day

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borrowing limit also eliminates borrowing as an essential tool for helping a corporate manage interest rate risk. We recommend elimination of the limit.

The proposed regulation stipulates a maximum weighted average life of a corporate's investment portfolio of not more than two years. Given the fluctuating nature of a corporate credit union's (CCU) balance sheet, the weighted average asset life (WAL) of an investment portfolio can change significantly over a relatively short period of time. A corporate credit union's cash balances are, generally speaking, extremely cyclical. With balance sheet shrinkage over the course of a quarter, it would be difficult, if not highly impractical, to attempt to adhere to a WAL upward limit. Earnings would also be limited in a maximum two year maturity limit. We suggest a minimum of 42 months.

To complement the traditional NEV modeling, NCUA is proposing a new ALM test which requires a corporate to shock its balance sheet assuming all floating rate investment spreads widen by 300 basis points. NCUA's goal is to force a mismatch maximum between assets and liabilities of three months. Such a restrictive mismatch target eliminates a corporate credit union's ability to earn a material spread while providing reasonable long-term value to its member credit unions.

The spread-widening test should be modified to exempt securities that do not carry credit risk (e. g. investments backed by the full faith and credit of the United States).

We take exception to the proposal permitting NCUA to change the required capital ratio for CCU, allowing the agency to downgrade a corporate to undercapitalized status if it receives a single examination component rating of 3 or higher. The proposed regulation also states that capital "cannot be determined solely through mathematical formula, but must be based in part on subjective judgment grounded in agency experience." NPCUs have been subject to similar subjectivity with the elimination of the peer group matrix, permitting an examiner to issue any rating he wants. We maintain that permitting NCUA to subjectively determine alternative minimum capital standards is not in the best interest of the credit union industry, in general, nor the corporate credit union system, in particular. Credit unions require a stable rating system to evaluate their CCU in determining the viability of investing in that corporate.

Regarding the agency's proposed term limits for CCU board members, we are concerned that some CCUs will suffer an immediate turnover of a majority of directors. We are not



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necessarily opposed to term limits, but we believe they should be implemented on a staggered basis.

Finally, we note that many of the new or amended provisions are effective immediately upon approval of the NCUA Board. Credit unions continue to suffer from the consequences of Congress's ill advised legislation imposed without a sufficient amount of time for credit unions to react. It is unrealistic to expect a group of corporate credit unions, some of whom are undergoing changes in senior management, to respond to these proposed changes without sufficient time to implement the appropriate provisions. In the final analysis, the vast preponderance of the CCUs will be unable to comply within the time allotted by the proposed revisions.

We request that the NCUA Board consider the above-written opinions before full implementation of the amendments to Part 704. Again, we thank the NCUA Board for this opportunity to express our opinion.

Sincerely,

Robert R. McKenzie

Cc: Fred Becker, President, NAFCU
David Bremer, President, First Carolina Corporate Credit Union
John Radebaugh, President, NC Credit Union League