Members Credit Union

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

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

Dear Ms. Rupp,

Members Credit Union (MCU) appreciates the opportunity to comment on the proposed changes to NCUA Regulation 704. MCU is a $234 million asset credit union serving 52,000 members in North Carolina and has 490 sponsoring employers. MCU has been a member of First Carolina Corporate Credit Union since its inception. I am currently in my second "tour of duty" serving on the board of First Carolina.

We support the cooperative system represented by corporate credit unions and believe in the value shared ownership of this system brings to credit unions. We are appalled at the lack of control that allowed such risky investments made by some corporates to endanger our own credit union with no input from us. We also suspect the national fields of membership for corporates brought about a risky competitive environment leading some corporates to chase higher yields and exposing them to too much risk. If we are to be held responsible for the operations of these corporates we should have some input on their business decisions. We do not want to see the corporate system "realize" the paper losses by being forced to consolidate. We support the idea that the assets already on all corporates books may take years to wind down and for the, at present, projected losses to be realized or dissipate – but it will take patience and many years for that to become known.

Instead of restating information already submitted to you, we fully support the comments made to you by David Brehmer, CEO of First Carolina Corporate Credit Union. We will for the sake of emphasis added or additional input offer the following opinions and observations:

1. We believe the rule, as written, will not give any corporate a chance to earn enough to satisfy your stringent proposed Capital targets. In our opinion, a cause of the current economic crises lies in credit risk and not interest rate risk. The maturity guidelines should be lengthened to allow for spreads to be made

allowing for adequate earnings. Tighten the credit risk parameters, ban certain investments, but allow for mismatches to lead to positive earnings and higher Capital. Some investments are bad at a 3 year term or a 3 day term.

2. We believe that term limits were not the culprit in the current corporate credit union problems. Just as the NCUA has seen the struggles for new board members to get "up to speed", finally understand enough o be effective only to be forced off the board and the agency lose that expertise, term limits cause more problems than they solve. Please allow the membership of each corporate decide who is and is not on the board.

3. The issue of recapitalizing the corporates that need new capital is a subject that caused great consternation among corporate credit union members. The pain and suffering of losing that much invested capital was enraging to many. In the corporate breakout session on corporate credit unions at the recently held CUNA Governmental Affairs Conference in Washington, DC, I did not see a single hand raised in a positive answer to the question "Who is willing to recapitalize your corporate?" That is very troubling and telling. We believe that corporates should earn their way to appropriate capital standards just like natural person credit unions (NPCUs). Do not require capital to be asked for and placed in corporates. Treat them like de novo credit unions and have staggered capital benchmarks for Retained Earnings as they mature. Install reasonable risk based (BASEL-I standards as a suggestion – which we support) capital standards, adjust the ALM constraints you are proposing and let the corporates earn their way back to safety and soundness. The controls you place on credit risk will take care of a certain amount of risk taking, and coupled with the elimination of national fields of membership to eliminate yield chasing will help.

4. We also suggest the following :
    - Eliminate the 30 day limit on liquidity
    - Remove the restriction of 25% of capital to a single obligor (would encourage investments in lower rated institutions elevating risk)
    - Remove the concentration limit per individual member (unfair to large CUs)
    - Allow the recovery of legacy assets in excess of previously written off amounts to be returned to capital holders that lost capital in the write downs.

5. We do not want corporates merged which will result in the immediate realization of losses that at this point are "paper losses" on the books of corporates.

Thank you for the opportunity to submit our thoughts on this proposed rule.