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Credit Union

P.O. Box 910 • Redwood City, CA 94064-0910

March 8, 2010

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428
SENT VIA EMAIL (regcomments@ncua.gov)

Subject: 12 C.F.R. Part 704

Dear Ms. Rupp:

In our letter dated April 6, 2009, San Mateo Credit Union respectfully submitted comments on the proposed rule to 12 C.F.R. Part 704. Following the challenges of the last year for the corporate credit union network, we feel it is critical to emphasize that corporate credit unions serve an important role with the credit union industry. Corporate credit unions provide us and other natural person credit unions with competitively priced investment and payment system solutions.

It is our hope that any changes to Part 704 will reduce future risks and allow the corporate credit union system to serve the investment and payment system needs of natural person credit unions. However, we do have concerns about the ability of the corporate credit unions to meet the needs of their members if some of the proposed rules are implemented in their current state. Our concerns are outlined below.

Corporate Capital
As we stated in our April 2009 letter, we strongly urged the Agency to implement risk based capital for corporate credit unions. Under the revised proposed rules, all corporate credit unions would be required to maintain three capital ratios in order to be adequately capitalized: 4% leverage ratio; Tier 1 risk-based capital ratio of 4% and a Total risk-based capital ratio of 8%. We believe the proposed rules appropriately mirror Basel 1 requirements for other financial institutions, which are critical for measuring the true risks faced by more complex financial institutions today.

However, the proposed rules allow corporate credit unions a one-year timeframe to attain these risk-based capital ratios. We believe this one-year window may not be feasible given the deterioration of their assets over the course of the last couple of years.

In addition we believe corporate credit unions may encounter challenges in re-capitalizing given the stress that has been put on natural person credit unions across the country because of the depletion of paid in capital accounts. Although we agree with the current practice of allowing credit unions obtain membership and receive services without a capital contribution, we believe

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the Agency must give serious consideration to the possible wariness of credit unions to re-capitalize the corpates during this challenging economic time. We would also urge the Agency to re-evaluate the proposed one-year timeframe to ensure that it will be an achievable result for corporates to obtain.

Legacy Assets
With continued deterioration in the portfolios of the corporates across the country, we believe the Agency should immediately address the steps it intends to take to deal with the toxic assets on the books of the corporates before it implements the final rules.

Number of Corporates
As we previously commented, we believe corporate credit union should be focused on the needs of members within their respective region of the country or within their respective NCUA designated region. As a result, we believe an opportunity exists to consolidate the number of corporate credit unions without inhibiting the power to achieve economies of scale for their natural person credit union members. We encourage the Agency to consider this vital issue before finalizing any changes to Part 704.

Net Economic Value Testing
The proposal includes two additional NEV to the one that already exists. The first takes each asset that has credit spread risk and shocks it by 300 basis points. The second test adds an across the board 50 percent slowdown and extension of any prepay sensitive instrument.

According to analysis conducted by the California Credit Union League, the proposed limitations placed on a corporate by these additional NEV tests would not allow corporates to generate sufficient interest margin to build retained earnings to meet the new capital requirements contained in the proposal. From our understanding, corporates would become dependent on lower costs of funds, which would ultimately impact their ability to remain competitive in the marketplace. We would urge the Agency to re-assess whether these NEV requirements serve a useful purpose in assessing potential risk or whether they are a reaction to past unforeseen economic events.

Redemption Restrictions
Currently, a corporate credit union may allow redemption of one of its certificates by a member, even if the redemption price, due to falling rates, is above par. The proposed rule limits a corporate credit union's ability to pay a premium on early withdrawals. The current non-penalty option allows smaller credit unions to manage liquidity, especially if they do not invest in securities. As a result of this proposed rule, we would anticipate that credit unions would not invest in certificates through the corporate credit union network and would instead turn outside of the network for investment alternative.

Director Qualifications
In our April 2009 comment letter, we encouraged the Agency to mandate requisite criteria to become a director and require annual training in the technical areas such investments and risk management.

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The proposed rules require directors to hold the equivalent of a CEO, CFO or COO position; however, we do not believe a specific job title will make an individual qualified to serve as a board member of a corporate. Instead the proposed rule should focus on core competencies and training to be qualified to serve as a director.

We thank you for the opportunity to provide our comments on the proposed rules. Should you have any questions, please feel to contact me at kniederkohr@smcu.org or our CEO, Barry Jolette at bjolette@smcu.org.

Sincerely,

Karen Niederkohr
Compliance Officer
San Mateo Credit Union

cc: Barry Jolette, President & CEO of San Mateo Credit Union
Jack Chinn, Chief Financial Officer of San Mateo Credit Union
Mary Dunn, CUNA
Chris Culver, California Credit Union League