From:	reinle@autotruckfcu.org
To:	_Regulatory Comments
Subject:	Huston Reinle comments on Part 704 corporate Credit Unions
Date:	Tuesday, March 09, 2010 2:12:28 PM

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March 8, 2010

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

Re: Proposed Corporate Credit Union Regulation 704

Dear Ms. Rupp:

On behalf of the management and Board of Autotruck Federal Credit Union, I would like to take this opportunity to express our appreciation to the NCUA Board for allowing us to comment on the proposed corporate credit union Regulation 704.

Autotruck Federal Credit Union is $76 million in assets, has 13,580 members, and serves primarily Ford Motor Company and General Motors Company employees. We are currently members of Kentucky Corporate FCU.

The proposed corporate rule contains several changes which, left unchanged in the final rule, will significantly limit the value that corporates will be able to provide and therefore are not in the best interests of Autotruck Federal Credit Union.

<u>Our first concern is 704.2 Definitions – Available to cover losses that exceed retained earnings.</u>
To the extent that any contributed capital funds are used to cover losses, the corporate credit union must not restore or replenish the affected capital accounts under any circumstances.

We are confused with the rationale for this definition. If the intent of this definition is not to reduce the capital level of a corporate credit union then this could be achieved by adding the phrase, "until a corporate credit union meets the well-capitalized level and any return of capital will not lower the corporate capital below the well-capitalized level" following this sentence. If the agency's concern is safety and soundness, once these capital levels are met, there will no longer be a safety and soundness issue.

Additionally, the regulatory mandate, to permanently deplete capital based on estimated losses created by OTTI models with no ability for corporates to replenish capital back to existing capital holders if actual losses are less than projected, is a major concern. GAAP does not require the treatment being applied by the NCUA, which is covered in the Letter to Credit Unions 09-CU-10 and now included in the revised definitions in the proposed rule.
Further, as part of its Accounting for Financial Instruments project, it is likely that the FASB will change the credit impairment model standards in 2010 to allow OTTI reversals as loss projections improve. NCUA regulatory accounting treatment should allow for the same accounting treatment as national standards and not permanently deplete credit union capital based on projections which will continually change.

Out next concern is 704.3 Corporate credit union capital.
Effective [INSERT DATE 12 MONTHS AFTER DATE OF PUBLICATION OF FINAL RULE IN THE FEDERAL REGISTER], revise §704.3 to read as follows:
(a) *Capital requirements*. (1) A corporate credit union must maintain at all times:
(i) A leverage ratio of 4.0 percent or greater;
(ii) A Tier 1 risk-based capital ratio of 4.0 percent or greater; and

We have been told in several of your town hall meetings that the "leverage ratio" would not become effective until 36 months after the final rule has been published. However, in this section of the regulation (pages 152 and 153), it states that this part of the regulation would become effective 12 months after the final rule has been published. We ask that you make regulation to reflect the 36 month time frame, as it continues to be communicated to all credit unions by you, the NCUA.

In addition to the leverage ratio, we ask the NCUA to make the effective date of the Tier 1 risk-based capital ratio 36 months, the same as the leverage ratio. To require corporates to bring in new capital or at a minimum convert existing MCA to the new PCC could be difficult during a time when significant issues still remain with regards to legacy assets for some corporates. Raising contributing capital in such a short time frame will be challenging until corporate credit unions can demonstrate their business model will succeed under the revised regulation 704. Since it will be necessary to raise PCC for both the leverage ratio and the Tier 1 risk-based ratios, it makes sense to extend the effective date of both ratios to 36 months.

Our third concern is 704.14. Representation.
(3) No individual may be elected to the board if, at the expiration of the term to which the individual is seeking election, the individual will have served as a director for more than six consecutive years.

We feel the 6 year term limitation is too restrictive. It typically takes several years for a board member to receive adequate training and to fully understand the operations of a corporate credit union. Once the six year term limit is instituted, there will be very little institutional knowledge on a Board with these limitations. Once a board member becomes knowledgeable of all corporate functions, they will be forced to step down. If the NCUA is determined to institute a term limit, a nine year term limit would be more practical.

Our final concern is 704.8(k) Deposit Concentrations

(k) Overall limit on business generated from individual credit unions. On or after [INSERT DATE 30 MONTHS AFTER DATE OF PUBLICATION OF FINAL RULE IN THE FEDERAL REGISTER], a corporate credit union is prohibited from accepting from a member or other entity any investment, including shares, loans, PCC, or NCAs if, following that investment, the aggregate of all investments from that member or entity in the corporate would exceed 10 percent of the corporate credit union's moving daily average net assets.

The stated objective for limiting deposits from any one source to no more than ten percent of a corporate's assets is to reduce risks that arise from placing undue reliance on a single entity. However, by limiting funds from any one source to no greater than ten percent of a corporate's assets, the proposed regulation would:

1. force funds out of the credit union system
2. penalize corporates that acted responsibly with their members money
3. deny credit unions their ability to invest in institutions they deem appropriate

If this limit is imposed, the likely scenario going forward is that the credit unions will withdraw funds from the system. This not only decreases the liquidity in the network, but also the overall decreased liquidity in the system may result in the restriction of credit some credit unions would otherwise provide to their own members.

A credit union can choose to invest an unlimited amount of funds in a bank if they conduct proper due diligence. Why, then, should they be precluded from investing the same funds in another credit union (corporate or otherwise) if they conduct the same due diligence? There are many credit unions that are extremely glad that their money was invested in certain corporates. If the proposed ten percent limit had been in place prior to this crisis, those credit unions could have lost money unnecessarily by virtue of them being forced to make deposits into other institutions or other investment options. A credit union should have the right to choose into which financial institutions it places its money... and its trust.

This part of the regulation should be removed.

In conclusion we would like to say there are a number of good proposals in these regulations in its current state, including: raising the capital requirements for entities with higher investment risks; reducing the use of short-term funding to finance longer term assets; and improving portfolio diversification. These provisions should remain.

Again, thank you for providing us with the opportunity to respond to the proposed regulation.

Sincerely,

J. Huston Reinle, President
Autotruck Federal Credit Union

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