Florida Credit Union

PO Box 5549

Gainesville, Florida 32627

3/8/10

Florida Credit Union comments on the proposed corporate regulations follow. We believe NCUA should approach these regulations with two objectives in mind.

1. Allow for the orderly stabilization and reconsolidation of the corporate system while minimizing costs to the insurance fund and natural person credit unions.

2. Create a regulatory structure where this can never happen again.

Our comments by topic follow:

Depletion of Member Capital without Recovery:

It is our understanding that the proposed regulation requires permanent depletion of member capital to restore deficit retained earnings. Florida Credit Union believes that, if this is done, very few credit unions will recapitalize corporate credit unions. NCUA should allow capital to be restored to create an incentive for credit unions to see this through.

Capital:

The proposed regulation sets capital and retained earnings regulations that are unlikely to be achieved within the limited three year time frame set. Florida Credit Union believes that capital requirements in any form should not begin until the end of year five. This will allow time for recovering in the economy, housing market, and mortgage backed security market. This will also allow for an orderly transition of Corporate Credit Unions into a better environment.

NCUA Creation of a "Bad Bank" for Corporate Investments:

Related to this, Florida Credit Union is very concerned that NCUA may remove all bad assets from Corporate Credit Union balance sheets. We think this would trigger fire sale losses as the securities would have to be fair valued. This could trigger the elimination of any remaining corporate capital. It could also trigger much higher assessments by NCUA. In effect, it does not allow time for the securities to realize any recovery in value they may get. NCUA should abandoned this idea.

Credit Risk:

Florida Credit Union believes NCUA should accomplish the following:

1. **Overnight book:** Our understanding is this portion of the portfolio did not cause the problems Corporate Credit Unions are facing. It is also our understanding that the proposed regulations would effectively put Corporate Credit Unions out of the overnight investment business by limiting mismatching severely with concentration limits. It is our understanding that the proposed regulations would drop overnight corporate rates from 20-25bp to current Fed Funds effective rates which is around 7-10bp. Couple this with the fact that the Federal Reserve is paying 20-25bp currently, the proposed regulation will instantly put Corporate Credit Unions out of business. NCUA needs to adjust the overnight position of the regulations to allow Corporate Credit Unions to be competitive but have reasonable credit and interest rate risk on their balance sheet.

2. **Term Book:** Our understanding is that this is the area that has caused the lions' share of problems in Corporate Credit Unions. Corporate Credit Unions matching CD sales off against mortgage backed securities cash flows with varying levels of credit risk and interest rate risk has created systematic risk that will cause credit unions to have to pay large assessments for years to come. Clearly this scenario can never be allowed to happen again. NCUA at a minimum needs to retain this portion of the proposed investment regulations. NCUA's first priority should be to make sure this never happens again.

Other Thoughts

Florida Credit Union believes NCUA needs to rethink the capital structure of the Central Liquidity Fund (CLF). We inquired and learned that we would have to purchase over $2 Million dollars in stock for a $450 Million dollar credit union to join CLF. Credit Union access to short term liquidity may become an issue depending on how Corporate Credit Unions evolve over the next 5 years. Smaller credit unions with non-real estate portfolios cannot access the Federal Home Loan Bank. It needs to be easier and less costly to access the CLF directly.

Prepared by: Mark Starr CEO, Wendy Koford CFO