



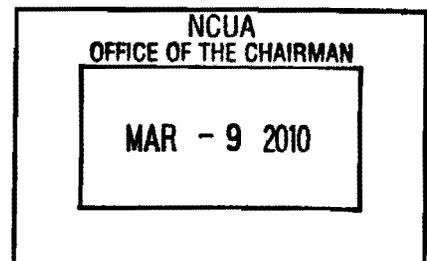
**KEESLER FEDERAL
CREDIT UNION**

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May Pappas

March 8, 2010

The Honorable Debbie Matz
Chairman, National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428



The Honorable Gigi Hyland
Board Member, National Credit Union Administration

The Honorable Michael E. Fryzel
Board Member, National Credit Union Administration

Comments on the Proposed Revision of Part 704

Keesler Federal Credit Union appreciates the opportunity to submit its comments on NCUA's Proposed Rule for Corporate Credit Unions. Keesler FCU supports revisions to the current requirements of Part 704, in order to strengthen corporate credit union operations and to ensure the long-term safety and soundness of the credit union industry. However, the Proposed Rule also contains several new requirements that, if not modified, would severely limit a corporate credit union's ability to provide valuable products and services to its member credit unions. In the following paragraphs we respectfully express our areas of concern.

704.2 (Definitions) – “Available to cover losses that exceed retained earnings”. Depletion and Replenishment of Member-Contributed Capital.

The definitions set forth in the Proposed Rule include a new term: “Available to cover losses that exceed retained earnings”. The proposed application of this newly-defined term would mean that member-contributed capital must be exhausted in order to cover operating losses realized by a corporate credit union if those losses exceeded the corporate's retained earnings. To the extent that any member-contributed capital was used to cover losses, the corporate credit union would not be allowed to restore or replenish the impacted capital accounts under any circumstances.

If depletion remains a requirement, member contributed capital accounts that have been depleted because of a corporate's estimated losses should be replenished in the future to the extent that the corporate's actual losses are less than the losses that were projected.

704.8 – Asset and liability management (c) Penalty for early withdrawals

The elimination of the ability for a corporate credit union to redeem one of its certificates at a premium puts the issuance of share certificates by corporate credit unions at a significant



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disadvantage relative to agency securities and makes CCU certificates less liquid. While this may seem to reduce liquidity risk, it may actually hurt the CCU network because NPCUs will not participate in CCU term deposits or the CCUs would have to pay an additional spread to attract term deposits. **This restriction should be removed from the regulation.**

704.8 (e) – Cash flow mismatch sensitivity

The credit spread widening of 300 basis points coupled with a decline limited to 15 percent is too restrictive and will severely hamper a credit union from generating net interest income without lowering the rates paid to member credit unions. **These limitations should be more specific to the type of instrument, the term, the underlying credit risks (i.e. GSEs –vs. - Private Label), fixed or floating rate and a more probable credit spread widening test.**

704.8 (f) – Cash flow mismatch sensitivity prepayment speeds

The prepayment speed tests and limitations when combined with credit spread tests and limitations will make lower risk investments such as asset backed and GSE mortgage backed securities virtually impossible for CCUs to hold. These types of securities, properly managed, will be crucial for CCUs to earn an adequate net interest margin to meet the ROA requirements of the proposed rule. **The proposed rule should establish classes of securities which would carry more appropriate risk tolerance levels and tests rather than painting the entire portfolio under the most extreme test the economy has seen in decades if ever.**

704.8 (h) – Weighted average asset life

The two year weighted average asset life limitation would restrict a corporate's ability to make term loans to natural person credit unions beyond two years. We understand that NCUA has stated the corporate's investment portfolio *must* include loans to members and CUSOs. A corporate wishing to make loans to natural person credit unions will have limited choices. In order to keep the overall weighted average life of the portfolio within the two year limit, most of the loans made will be limited to shorter-term maturities. For longer-term loans a corporate credit union will have to increase the rate offered substantially in order to compensate for the impact the longer term will have on this WAL test.

Additionally, in order to meet potential lending demand from members, a corporate will have to keep its securities portfolio well under the two-year limit, so as to not have a single loan cause a breach of the limit. The two-year limit is already a severe constriction on net interest income generation. **Including loans in the calculation will force a corporate to choose between enough income to survive and being in the term lending business with members.**



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If the proposed rule is adopted, longer-term financing available to natural person credit unions from corporate credit unions will be reduced drastically and what will be available will come with a much higher borrowing cost.

Agency MBS, properly managed, are a prudent investment alternative for corporate credit unions. This restriction will preclude the use of such instruments, restrict diversification and reduce the yield potential on a corporate credit union's portfolio, thus lowering available rates on corporate credit union deposits.

704.6 – Credit risk management (d) Sector concentration limits

Federal funds transactions are not specifically excluded from the sector concentration limits, thereby limiting aggregate federal funds transactions to the lower of 100 percent of capital or 5 percent of assets. This limit would severely limit a corporate's access to the federal funds market.

However, this is an exemption to the concentration limit rules for deposits in other depository institutions but not specifically for federal funds transactions. Although Fed Funds transactions are nearly identical in practice to large wholesale deposits, they are considered sales and are not included in this exemption.

Corporates will have difficulty investing ample short term liquidity at reasonable rates. They may also have to reduce the rate they are paying to their member credit unions on their overnight accounts.

We urge the NCUA to change the definition of deposits to include Federal Funds or to change Section 704.6 (d) (4) to include Federal Funds transactions sold to other depository institutions in the exemption from concentration limits.

Additionally, the limit on aggregate Federal Funds sales to a single obligor is 25% of capital. This limit is too small given the limited number of counterparts bidding for Fed Funds at any one time and will result in difficulty in managing a corporate's short-term liquidity position.

704.14(a) (3) – Board Representation

Paragraph 704.14(a)(3) of the Proposed Rule would require that members of a corporate credit union's Board of Directors be limited to service of no more than 6 consecutive years. We believes that although there is good reason for the introduction of term limits, given the educational demands of a corporate's Board members the proposed 6-year term limit is too short and valuable experience would be lost.



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704.19 – Disclosure of executive and director compensation

In the currently proposed regulation, the definition of “senior management” is too encompassing and broad. A corporate credit union may experience difficulty recruiting and retaining mid-level executive positions based on its inability to keep salary data confidential.

704.11 Corporate Credit Union Service Organizations

Permissible activities under this section are undefined. Additionally, it is unclear which current Corporate CUSOs would be allowed. Credit unions will lose a competitive advantage in the marketplace if Corporate CUSOs have limited ability to invest in and/or offer services that will enhance their value as a financial institution. The regulation would lead to credit unions looking outside the credit union system for solutions that could and should be offered by Corporate CUSOs.

Thank you for your time and consideration of these important issues.

Sincerely,

**Richard Tolar
Senior Vice President & CFO**