ALAMEDA
CREDIT UNION

March 8, 2010

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

Subject: Comments on Part 704 Corporate Credit Unions

Dear Ms. Rupp:

Thank you for the opportunity to comment on NCUA's proposed amendments to Part 704, which would make major revisions regarding corporate credit union capital, investments, asset-liability management, and governance. As a Shapiro size credit union, we have come to rely on the corporate credit union system for many of our day to day services including payment processing, settlement services, wire processing, cash ordering, overnight and term investments. These services are provided at reasonable costs that are necessary for small to mid-size credit unions to remain competitive in today's marketplace. Some of these services are not obtainable for small credit unions in the marketplace, and some would be cost prohibitive given the work volumes generated by small credit unions. While I understand the need for revision of the corporate credit union regulations, please do not lose sight of the important role these corporate credit unions play for small credit unions in the marketplace today. I can appreciate NCUA's desire to strengthen the corporate credit union system, but I feel the proposed rules as written would make it impossible for corporate credit unions to operate in a viable manner.

The following items are of particular concern to me:

TIME PERIOD FOR CAPITAL RATIO ATTAINMENT

The one year window required by the proposed regulations to attain the risk-based capital ratios noted is not realistic. To obtain these ratios would require significant capital contribution from member credit unions. The expectation that credit unions are willing to contribute significant amounts of capital is not realistic. NCUA needs to look to other sources to recapitalize the corporate credit system. Natural person credit unions are not in a position to fully recapitalize the corporate credit unions given the significant strains on capital due to current economic conditions, and the loss of corporate credit union capital last year. It will take time, and a buildup of capital at natural person credit unions before we are willing to invest significantly in the corporate credit unions, especially in this uncertain environment.

WEIGHTED AVERAGE ASSET LIFE

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This provision limits the weighted average life (WAL) of a corporate credit union's aggregate assets to two years and includes loans to members. Such a requirement will have adverse implications for natural person credit unions seeking to fill liquidity needs with term loans from corporates. In order to keep the overall WAL of its portfolio within the two year limit, most of the loans made by a corporate will be limited to shorter-term maturities. For longer-term loans, a corporate will have to substantially increase the rate offered in order to compensate for the impact the longer term will have on its two year WAL test. As a result, long-term financing to natural person credit unions will be drastically reduced, and will come with a much higher borrowing cost, forcing credit unions to seek less beneficial, or more expensive, funding from other sources. In addition, many natural person credit unions use longer term borrowings to mitigate interest rate risk. A limitation on borrowings from corporates to two years would take away an important tool for these credit unions.

Therefore, I request the Board to exclude loans from the calculation of weighted average life of the investment portfolio. After all, the original purpose of corporate credit unions was to enable financial intermediation between credit unions—not only their short term needs but also medium and long term needs. Whatever changes NCUA makes to the WAL of corporate assets, it must consider appropriate adjustments to the liabilities side of corporate balance sheets.

PREMIUM FOR EARLY WITHDRAWALS ON CORPORATE CERTIFICATES

This proposed provision limits a corporate credit union's ability to pay a market-based redemption price to no more than par, thus eliminating the ability to pay a premium on early withdrawals. Such a change will pose a significant disincentive for member credit unions seeking liquidity, and will likely lead them to seek more competitive investing options than corporates. Many smaller credit unions take advantage of a non-penalty option to manage liquidity, especially if they do not invest in securities. I urge the Board to strike this proposed requirement as it is counterproductive to maintaining corporate liquidity and natural person credit union investment options.

PAYMENT OF DIVIDENDS

The proposal will prohibit an undercapitalized corporate, unless it obtains NCUA's prior written approval, from paying dividends on capital accounts. Capital accounts, as natural person credit unions have painfully learned, are riskier than insured deposits. To balance that higher risk, investing credit unions will be reluctant to contribute capital without the promise of a higher return to compensate for the added risk.

NCUA should leave this decision to the Board of the corporate credit union which should rely on a retained earnings target to serve as a built-in constraint on the payment of dividends.

In closing, I would like to thank the NCUA Board for the opportunity to provide my concerns and recommendations regarding this very important rulemaking. We urge the Board to strike an effective and fair balance between preventing a repeat of past corporate failures and allowing a viable corporate system to thrive. The gravity of possibly losing the corporate credit union system as an option for natural person credit unions justifies a comprehensive "reality check" on what NCUA has proposed for the future of corporate credit unions and, ultimately, natural person credit unions.

Sincerely,

Donald Winstead
Chief Executive Officer
Alameda Credit Union

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