From:	Adam Denbo
To:	_Regulatory Comments
Cc:	league@ccul.org; chrisc@ccul.org; ritaf@ccul.org; adenbo@calagcu.org
Subject:	Comments on Part 704 Corporate Credit Unions
Date:	Tuesday, March 09, 2010 7:33:53 PM

Date: 03/09/2010

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

Subject: Comments on Part 704 Corporate Credit Unions

Dear Ms. Rupp:

On behalf of California Agribusiness CU, I appreciate 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, governance, and credit union service organization (CUSO) activities.

I am the CEO of a $31 Million credit union, California Agribusiness Credit Union, serving 7,000 Members throughout the sand state of California. And, although we are small, we are in the top 40% of federally insured credit unions nationwide. I believe most of us lean on Corporate Credit Unions to provide us liquidity and payment services.

We need a liquidity resource that is independent from the banking system in order to control our cost of funds and have direct and immediate results. Moreover, we borrow from our corporate to take advantage of lending, investment, and arbitrage opportunities that may arise. We purposely do not leave a lot of cash in overnight accounts. We try our best to make money with money and believe that the true definition of liquidity is getting your "hands on cash," not "cash on hand." This has helped us manage our spread. We are essentially financial intermediaries for our Membership.

Payment Services are essential for the majority of credit unions that cannot afford the internal resources to handle such complex processing. Our Corporate processes our ACH debits and credits, handles all settlements, has the direct relationship with the FED, processes all of our Member share drafts, enables our wire transfers, etc. The price we pay for such services must be controlled in a cooperative manner and must be management within the credit union system. If not, credit unions will cooperate with other larger credit unions and, essentially, you will have corporate credit unions without a formal corporate charter. Additionally, you will have CUSOs serving natural-person credit union for payment processing and NCUA will have little or no oversight into that area which will create more risk to the NCUSIF.

As far as the Proposed Regulation 12 CFR Part 704 is concerned, I believe there needs to be a little more flexibility in order for the new business plan to be sustainable. I have particular concerns in primarily four (4) distinct areas:

704.8 (h) Weighted average asset life: As previously stated, I sue my corporate for short-term and long-term liquidity needs. As a matter of fact I have asked to be approved for another $1M just so I know it will be there if needed. Limitations placed on asset maturities or average life limitations may severely impact my ability

to obtain term liquidity if I need it. Due to the status of the FHLB network, I am not willing to put capital into FHLB. I am also not willing to go to a bank as the price I will pay will be similar to the “mom and pop” small business. One solution could be to exclude member loans from the two-year average life limitation.
704.6 (c) & (d) Concentration Limits: Under the current proposal, my Corporate will be severely challenged to invest short-term liquidity at reasonable rates. This will have and has had a sever effect on my overnight rate received. Please change the definition of deposits in 704.6 (d) to include Federal Funds, or include Federal Funds transactions in the exemption from sector concentration limits. Additionally, it would also be safe to allow a single obligor limit of 200% of capital on money market transactions with a term of 90-days or less.
704.8 (d), (e) & (f) NEV sensitivity analyses: I have witnessed an analysis that illustrates that the proposed limitations placed on a corporate through various NEV tests do not allow the corporate to generate sufficient interest margin to build retained earnings to meet the proposed capital requirements. This would inherently lead to increased fees which would adversely affect many credit unions. The rule should be revised to allow corporates to make sufficient income from the balance sheet.
704.8 (k) Overall limit on business generated from individual credit unions: The current limit of 10% may force a corporate into short-term borrowings with less favorable terms regarding price, maturity and collateral. It would force corporates to maintain larger cash balances which would be contrary to what even my credit union does and that is make money with money, not let it sit on the sideline.
I do not envy the NCUA’s role and the task they have decided to take, but I do hope that these letter do not go unread and that the NCUA truly understands that corporate credit unions need a sustainable business plan because natural person credit unions are sustainable through collaboration and the corporate system is still a great model for our cooperative nature. Let us not create burdensome rules for the exceptions as these are truly exceptional times.

Thank your for your consideration to this critical matter.

Sincerely,

Adam Denbo