From:	Brian Hall
To:	_Regulatory Comments
Cc:	league@ccul.org; chrisc@ccul.org; ritaf@ccul.org; bhall@foothillcu.org
Subject:	Comments on Part 704 Corporate Credit Unions
Date:	Tuesday, March 09, 2010 12:11:01 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 Foothill FCU, 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.

March 8, 2010

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

From
Brian Hall, CEO
Foothill Federal Credit Union
30 S. First Avenue
Arcadia, CA 92006

Re: Proposed Regulation 12 CFR Part 704

Dear Ms. Rupp:

The proposed regulations are comprehensive and clearly were developed with considerable evaluation and with consideration of the comments made by interested parties including Foothill FCU on the original ANPR. It is also important to note that the projections and assumptions require a substantial understanding of corporate credit union operations.

The proposed regulations will also impose new and significant limitations on liquidity, borrowing, investment duration, investment modeling, board representation, financial disclosure and perhaps of greatest concern, restrictions based upon Asset Liability

Management and Net Economic Value calculations that are subject to considerable market volatility. It is our opinion that some of the proposed rules will have undesirable consequences on both the Corporate Credit Unions which will adversely impact Natural Person Credit Unions (NPCUs).

Our main concerns are:

704.2... New Capital Ratio Requirements
In our comments on the ANPR in March of 2009, we noted that if Corporate Credit Unions were permitted to have expanded authority and invest in riskier types of securities, then they should be required to have a higher “Core” capital ratio. The proposed regulations provide for a generally higher level of capital. The question of if/how/or when Corporate Credit Unions will be recapitalized is probably the single most significant concern that NPCUs have. It appears from the various case assumptions
developed in the proposed regulations that NPCUs would be required to recapitalize perhaps as soon as 12 months from regulatory implementation.

If recapitalization is based upon Corporates balance sheets including the subprime, CDO and Alt-A investments (the Legacy assets), we would not support recapitalization. If however, recapitalization was based upon a much smaller asset size and therefore a much more modest recapitalization, we could consider that. Only one of the 4 (Case C) scenarios included in the proposal limits NPCU recapitalization liability. We recommend that NCUA address the Legacy assets now in conjunction with these proposed regulations.

704.8 (b) Penalty for Early Withdrawals on Corporate Certificates
Foothill FCU has a long history of investing both excess liquidity and certificates with Wescorp. The proposed regulation limits redemption to the lesser of book value plus accrued dividends, which makes a corporate investment less liquid than a comparable bullet type investment. If this proposed change stays as is, it reduces liquidity options for us and puts the Corporate Credit Unions at a disadvantage competitively. This rule is over protective based upon the possibility of liquidity concerns in the future for corporates. We recommend that this provision be deleted considering the needs of the many thousands of NPCUs.

704.8 (d), (e), (f) & (h) NEV Sensitivity Analyses
We do not think the proposed restrictions on asset/investment duration, NEV volatility limitations and Gap restrictions will allow the Corporates to take enough risk to generate a sustainable return on assets.

The rule and other NEV, ALM & Asset Life limitations and restrictions should be revised to allow for the Corporates to have a sustainable business model to produce income from the balance sheet to rebuild capital, grow the organization appropriately and invest in innovation for the benefit of all NPCUs.

704.6 (c) & (d) Concentration Limits
Corporate credit unions maintain Fed Funds Sold as investments on their balance sheets to meet the liquidity needs of their NPCU depositors. As proposed by 704.6 (d), the Single Obligor concentration limit is the greater of 25% of capital or $5 million. We believe that this limitation, at least initially until capital is rebuilt, will be insufficient and may restrict the effectiveness of the Corporate liquidity function.

We also understand that Corporates, to some degree, rely on Fed Funds as a low cost source of liquidity and if the Single Obligor limitation is imposed, may reduce Corporate Credit Union earnings and hence competitiveness.

We recommend the definition of deposits in 704.6 (d) be modified to exclude Fed Funds, or alternatively exempt Fed Funds from sector concentration limitation altogether.

704.19 Disclosure of Executive and Director Compensation
We don't think that disclosure of executive and or director compensation to the general membership will in any way strengthen the Corporate Credit Union system. We are not however, opposed to transparency and full disclosure.

704.11 Corporate Credit Union Service Organizations
Expanded Examiner/Auditor/Director Access - Many NPCUs are using CUSOs to help provide innovative products while sharing the costs associated with the business among multiple CUSO owners. In some cases, we rely on WesCorp to join that CUSO for business reasons.

The proposed rule may make it extremely difficult for WesCorp to find qualified CUSO partners with whom to offer credit unions the competitive products and services they need. If I where a third-party provider (CUSO) to credit unions in which WesCorp wanted to be a minority partner, I do not believe it is reasonable to legislate that NCUA have unlimited access to my books, records, software and operations.

I hope that our comments, along with those of my fellow credit union leaders and especially the comprehensive comments dated February 17, 2010 from the California and Nevada Credit Union League, will assist you in producing final regulations that both improve the safety of Corporate Credit Unions and allow for a business model that allows Corporate Credit Unions to succeed in the future.

Thank your for your consideration to this critical matter.

Sincerely,

Brian Hall