March 9, 2010

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

Sent via email

RE: Comments on Part 704 Corporate Credit Unions

Dear Ms. Rupp:

Dow Chemical Employees' Credit Union (DCECU) wishes to thank the NCUA Board for the opportunity to comment on the ANPR regarding Corporate Credit Unions (CCUs). DCECU represents over 55,000 members largely in the mid-Michigan area, and currently has over $1.3 billion in assets.

In general,

DCECU's response is predicated upon:

1. that CCUs provide natural person credit unions (NPCU) like DCECU with superior value in payment systems, liquidity and a viable alternative for investment services. DCECU believes that its CCU provides between $30,000 – $75,000 annually versus other alternatives (depending on the timing – prevailing interest rate spreads, cost advantages/disadvantages, member volume, balances, etc.). It further assumes that similar value (scaled to size and scope for each NPCU) is produced for thousands of other NPCUs through their CCU.

2. that NCUA will work with and be transparent to the CU system regarding the legacy assets and how these assets will be handled in the future. Without transparency, clarity and a shared vision, NPCUs will likely be resistant to recapitalize CCUs.

3. that a three tier system is no longer viable, and restructure will be necessary. In the ANPR, there is very little discussion regarding U.S. Central, other than there will be no different treatment under the proposed rule, "wholesale" CCUs will no longer be defined, a three tier system "presents an element of inefficiency and systemic risk multiplier" (see pg 109 of the ANPR) and the NCUA's Board desire to eliminate distinctions on Fields of Membership between retail and wholesale CCUs (i.e. – each will be free to serve the other's members).

4. that the Federal Reserve will begin to shrink their balance sheet at some point in near future and return to "normal" balance sheet levels. Also, that the Federal

Reserve does not desire to "compete" in the credit union space for CU correspondent services.

5. that clear alternatives for aggregating CCU deposits (e.g. – U.S. Central bundles CCU deposits in an off balance sheet manner and obtains better rates than individual CCUs would get on their own, very large, safe and well capitalized financial institutions fulfill this need, etc.) emerge, if and when the Federal Reserve balance sheet shrinks to "normal" size.

<u>ANPR Comments</u>

704.3 Corporate Credit Union capital
Generally, DCECU supports the proposal which intends to strengthen CCU capital ratios and make them more consistent with requirements of the banking regulators (i.e. – Basel I). It is our understanding that the NCUA Board has commissioned an outside third party to validate some of the Pro Forma income assumptions (see pgs 99-101 of the ANPR) provided. DCECU recommends and encourages this activity prior to completion of the Final Rule, especially given the (see pgs 102-105 of the ANPR, "A"-"D" scenarios and recognition that there remain) potential negative factors that may impede CCU's ability to hit the milestones regarding capital accumulation. The proposed rule as written contains little margin for error as CCUs will generally need to earn between 15-21 bps annually to comply with these capital requirements.

704.4(b)(2) Prompt Corrective Action
DCECU supports the intention by NCUA for CCUs to not promote their capital category (similar to NPCUs prohibition of disclosing its CAMEL results), but the words "well capitalized" and "adequately capitalized" are common expressions and may be unintentionally used by a CCU. DCECU recommends that this be reviewed to ensure the wording provides adequate protections to assure CCU compliance.

704.8(c) Penalty for Early Withdrawals
DCECU believes that from a practical standpoint, CCUs will be forced out of the term deposit business should this provision remain as written. NPCUs would have no incentive for investing in these instruments if their values do not reflect changes (potential gains) as market interest rates change. Other securities (US Treasury notes, Federal agency securities) reflect this change, and assuming they are not held-to-maturity instruments, allow for redemption at prevailing market prices. DCECU recommends this provision be dropped or communicated more thoroughly to demonstrate the necessity of this provision.

704.8(e & f) Cash Flow Mismatch Sensitivity … Slower Prepayment Speeds
DCECU supports the concept of modeling to safeguard against spread widening and the risk of slower prepayment speeds on relevant instruments. However, the 300 basis point provision proposed seems too conservative and is applied as a "one-size fits all." DCECU recommends that NCUA have an unbiased third party review historic volatility

of the permissible investments that NCUA is proposing and to which investments credit spread widening (and the slower prepayment speeds), should apply to. The third party should be able to prescribe a set of recommendations that would generally safeguard the CU industry. These recommendations could be augmented to include ”worst case” (like the period recently suffered through) credit spread information and prepay slowdowns that would be useful information to benchmark against in the future should similar economic conditions in the future prevail or be expected to.

704.8(h) Weighted Average Asset Life (WAL)
DCECU supports the concept of “appropriately managing” the mismatch of assets and liabilities. However, the proposed regulation seems to ignore the liability component of the balance sheet and may be overly restrictive when the durations and characteristics of assets and liabilities are compared (see the section later on borrowings). The proposed regulation infers (pg. 107 of the ANPR uses only Wescorp and US Central as examples) that a WAL exceeding two years provides negative results, but lacks information on the WALs of more prudently-managed CCUs. DCECU would again recommend that an outside third party review this section (and whether there is widespread evidence of CCUs leveraging irresponsibly). Absent this analysis a WAL of three years seems to be more practical or NCUA should more clearly articulate the safety and soundness concerns surrounding the greater levels of risks incurred with WALs in excess of two years.

704.9(b) & (b)(1) Liquidity Management … Secured Borrowings
DCECU believes the proposed limitation on borrowing is a response to irresponsible behavior and mismanagement on the part of certain CCUs. NPCUs often look to CCUs as opportunities to hedge (i.e.- provide a better funding source against longer-term loans) or as a more attractive source than FHLB alternatives. Prohibiting these opportunities will likely be detrimental to NPCUs and limit CCUs in utilizing a beneficial balance sheet tool from its quiver. DCECU recommends that NCUA revise the proposal with less onerous restrictions being placed in this section or better communicate the safety and soundness concerns surrounding irresponsible borrowing behavior by CCUs.

704.14(a) Representation
DCECU believes that Directors and Committee members of CCUs should require minimum standard qualifications regarding knowledge, expertise, skill sets and experience that are related to the activities that a CCU engages in or contemplates involvement in. However, certain of the proposed changes may do little to ensure proper governance, such as: the requirement that a Director hold the position of CEO, CFO or COO. Knowledge, expertise, proper skill sets and experience trump the aforementioned positions or titles. It is important that there is enough latitude for CCUs to establish requirements that fit their business model. DCECU supports “reasonable” term limits for directors, but six years is too short. By way of example, the State of Michigan has enacted term limits on its state representatives (Representatives – six years). Unfortunately this has not worked out best for the state as the quick turnover has created a void in leadership since by the time a representative has the experience

necessary to help lead and govern, they are essentially lame ducks. This experience/leadership void, may occur in CCUs having a large percentage of Board members with six or more years of service. DCECU recommends that term limits be extended from the proposed six years to nine to twelve years.

Again, DCECU appreciates the opportunity to respond.

Sincerely,

Dennis M. Hanson
President/CEO