Treasure State
Corporate Credit Union

March 9, 2010

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

Re: Proposed Regulation 12 CFR Part 704

Dear Ms. Rupp,

Treasure State Corporate Credit Union (Treasure State) appreciates the opportunity to comment on the NCUA Proposed Regulation 12 CFR Part 704. NCUA is to be commended in the steps that it took to stabilize the corporate credit union system to avoid costly systemic effects to natural person credit unions. In addition there are good aspects and much needed reforms in the new proposed regulation. However, there are many problems with the proposed regulation that have been communicated in many of the excellent comment letters already submitted to NCUA and communicated at the Town Hall meetings.

Treasure State generally agrees and supports the comments already communicated to NCUA by other corporate credit unions and many natural person credit unions. Especially as they pertain to the difficulties the balance sheet restrictions present in formulating a viable business model with a value proposition for credit unions. For the record these will be contained in the next section of the comment letter. This section is geared to commenting on the process relating to the comment period and the difficulties of trying to move forward in determining a viable business model that meets the restrictions in the proposed regulation and NCUA's (and some natural person credit unions) perceived vision.

It is apparent that the events of the last three years have wrought havoc on the corporate credit union network. Obviously these have had tremendous negative effects on natural person credit unions and their members; thereby requiring a reevaluation of the corporate credit unions from an insurance (NCUA) and owners (natural person credit unions) perspective.

Unfortunately these two perspectives often provide for various differing views as to the causes and solutions to the crisis. On one hand, NCUA appears to view the interdependency of the corporate network and natural person credit unions contributing to an unacceptable high level of systemic risk. As corporates competed for a larger market share and interdependency, inefficiencies crept into the system as well as excessive risk taking.

On the other hand, corporates sought to provide the highest level of value to credit unions to cement solid business relationships. Some natural person credit unions looked for the same or the best deal which resulted in insufficient capital accumulation at corporates as the focus was in the immediate return of value. In other words, the goal was to provide products, services, and immediate value to build interdependency on a collaborative credit union system between corporates and credit unions.

The problem arises when these two visions need to be reconciled. NCUA wants to limit products and services that corporates can provide by severely reducing risks contained in the balance sheet. The corporates continue to want to be a valued business partner for their member credit unions, and providing value necessitates some risk taking. Corporate credit unions also see a need to be responsive to emerging credit union needs which will also require additional earnings that would be used for future innovation. Corporates can't levy an assessment on credit unions in order to accomplish members desired needs; they must be paid for through earnings. There is no room in the proposed regulation for this type of activity as corporates will just be trying to attain the retained earnings requirements for survival.

The other problem is that NCUA continually makes statements that they do not want to shape the corporate credit union system. At one point they state that the corporate system contains a lot of inefficiencies and that there needs to be some consolidation, but the number of corporates will be determined by market forces. Now it is clear that NCUA wants massive consolidation ("27 corporates are too many") and they are attempting to do this through regulation, not market forces. In addition, NCUA also seems to have a vision as to a much more limited role that corporates will be able to fulfill in regards to products and services for credit unions. Once again this is accomplished through restrictive regulation, not market forces. These conflicting statements create a lot of uncertainty for credit unions and wastes valuable time.

It is clear that many credit unions and NCUA want consolidation of the corporate credit union system and Treasure State does not dispute that finding. Treasure State, like most corporates, is desperately trying to figure out a viable business model and appropriate partnering/merger possibilities that best fit our member's needs and wants. However, it seems that when we start going down a particular path and start working on a solution, either a roadblock pops up or it becomes apparent that the proposed regulation will not permit that outcome. For instance, we must wait for the "legacy assets" plan to be communicated before we can proceed or the results of the independent third party must be completed to know if there indeed needs to be a relaxing of the restrictions in the proposed regulation. In addition, no communication has been permitted by the two largest corporate credit unions in the country (US Central and WesCorp that are currently under conservatorship) as to what role they will play in the future corporate credit union system.

It is clear that the proposed regulation is designed to achieve certain desired results. By reducing credit risk, limiting ALM, and reducing balance sheet leverage, the proposed regulation goal is to protect payment and settlement systems, short term liquidity and short term investment options. Also, much stronger capital requirements with an emphasis on retained earnings plays heavily in the mix. Some of these changes are needed and welcomed by both corporate credit unions and natural person credit unions. The problem is that there other restrictions in the proposed regulation that make a viable business model impossible.

The comments below are not offered with the preservation of Treasure State in mind, but rather the successful development of a viable corporate credit union business model that deserves credit union support.

704.3 Corporate Credit Union Capital

Treasure State supports the need for a new capital regime and higher capital levels for corporate credit unions. However, credit unions need time to vet the results of a brand new business model before determining whether or not they will be willing to contribute permanent capital to an institution. In addition, until the legacy asset plan is sorted through and the effects it will have on retained earnings accumulation, it will be exceedingly difficult to attract capital from credit unions. It is also bothersome that contributed capital will not be counted towards total capital after the earnings retention ratios become implemented. Does this mean that that capital is no longer at risk? While it is understandable that there is a renewed emphasis on retained earnings, the timelines to achieve them in the proposed regulation are unrealistic given the ALM and balance sheet restrictions in the other areas of the proposed regulation. Therefore there should be a complete review of acceptable timeframes for the capital thresholds to be achieved based on the comments above.

NCUA should allow for some mechanism in the new corporate regulation where corporates can return capital back to existing capital holders if actual losses on investments in which OTTI has been taken are less than projected. The current and proposed practice of capital depletion is not required by GAAP and is actually being reviewed by the Financial Accounting Standards Board that will allow reversals of OTTI if loss projections improve. The ACCU and CUNA have proposed mechanisms that would facilitate the ability to recapture that lost capital.

Sections 704.4(d)(3) and 704.4(d)(4) allows for a subjective judgment to be used in determining a corporate's capital status regardless of whether or not they meet the capital standards as defined in the regulation. This allows for an unacceptable level of subjective discretion on the part of NCUA and creates too much uncertainty for credit unions that are being asked to recapitalize a corporate credit union. Under the proposed regulation, the OCCU Director can arbitrarily increase the capital required for a corporate; can unilaterally require that certain capital accounts be discounted and not included in applicable capital ratios; unilaterally change the capital category of a corporate; and lower a corporate's capital designation if only one of many CRIS categories are rated a 3 or lower. Treasure State recommends that the subjective judgment of determining the appropriate capital requirement for a corporate credit union is removed from the regulation and the appropriate capital level designation should be based upon the calculated capital ratios only.

704.8 Asset Liability Management

Much of the issues concerning the ALM areas have been well documented and commented on by both the corporate credit unions and many natural person credit unions. It is apparent that many believe that the restrictions contained in this section make it impossible for a corporate to develop a viable business model that would provide any value to credit union members or even meet the retained earnings requirements contained in the proposed regulation. Significant changes should be made, specifically with the credit spread widening test, the two year maximum weighted average life restriction, the cash flow mismatch analysis, prohibition on redeeming certificates at a premium, and the 10% deposit concentration limitation. Treasure State agrees with these findings and implores NCUA to make the necessary changes that have been recommended to allow for a viable business model.

704.9(b) Borrowing Limits

This section places a limitation of 30 days on liquidity borrowings. Many corporates provide longer term borrowings and manage the risk by matching term borrowings with term loans to members. While leveraging the balance sheet for investment purposes is understandable, many credit unions rely on corporate credit unions as a source of liquidity. While it is true that there are other sources available to credit unions, often these sources are very expensive and many credit unions do not qualify for lines of credit due to acceptable collateral such as mortgage related holdings to qualify for FHLB lines of credit.

This borrowing restriction seems counter to the NCUA goal of ensuring that corporate's are liquidity providers as they were originally conceived to be. To drastically limit this service in the attempts to limit leveraging the corporates balance sheet for investment purposes seems to overly restrictive.

704.14 Board Representation

Treasure State believes that the proposed term limits for directors of six consecutive years is too short of a time frame because a corporate's operation is significantly different than a credit unions, and it takes some time to thoroughly understand. In addition, titles such as CEO, CFO, or COO do not automatically mean that a person is qualified. If the goal is to retain qualified volunteers, there should be more emphasis on qualifications rather than titles.

These are just some of the thoughts that Treasure State suggests for revisions, and/or clarification. As mentioned earlier, many thoughtful comments have already been communicated to NCUA and it is our hope that they are seriously taken into account to preserve a system that will provide value to natural person credit unions and their members. It is very clear that NCUA has put a lot of time, thought and consideration into this proposal and that you intend to strengthen the Corporate Network so that it can be of lasting value to all credit unions. However, we cannot eliminate all risks and a corporate must take some risks in order to provide value to natural person credit unions.

Sincerely,

Steve Howke
President/CEO
Treasure State Corporate Credit Union