

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 702, 703, 704, 709 and 747

Dear Ms. Rupp:

While I appreciate the opportunity to provide input to the NCUA Board regarding the proposed revised regulations that govern corporate credit unions, it is with much concern that I fear NCUA is trying to fix an isolated problem with a massive overhaul of the corporate system. Clearly this proposed regulation is unrealistic. If it is the intent of the NCUA Board to close down the corporate system, this proposed regulation will accomplish just that, as well as, cause significant negative impact on all natural person credit unions. Cessna Employees Credit Union located in Wichita, KS, depends heavily upon the services offered by our Kansas Corporate Credit Union for investments and safekeeping; liquidity; settlement services for checking, currency and coin, domestic and foreign wires transfers, ACH receipts and originations; settlement services; key advisory services. We consider Kansas Corporate Credit Union as one of our critical strategic partners that gives us a competitive advantage in our marketplace. I do not care to do business with entities that we compete with on a daily basis, and don't have our best interest in mind. Otherwise we will be forced to do business with our competitors at a much higher cost. Be specific and just address the "Concentration by type of investments" issue that caused the problem.

Here are my primary concerns with the proposed regulation:

704.8 Asset Liability Management

ALM modeling and NEV calculations provide a great management tool for those credit unions that have the time and resources to devote to that effort, but I believe almost everyone would agree that the results should never be used to regulate, test or compare to standards set by regulation. There are far too many variables that can affect the results and even a greater number of management styles, assumptions of product mixes that yield itself to the idea that every credit union should be held to the same standard ALM results. This was tried years ago by both the FDIC and FSLIC/OTC and they finally resolved that it is clearly a great management tool only. Focus on concentration limits, combined with a reduction in investment authority should be enough. The rest of the corporate system is working just fine. If it isn't broke, don't fix it!

704.8 (e)(1)(i) Credit Spread Widening

Corporates usually use floating-rate investments to limit interest rate risk by allowing them to move the rates they pay quickly when interest rates change. This additional test eliminates the value of these safe investments and essentially converts them to fixed-rate investments for measurement purposes. As a result, these assets would be considered fixed-rate for

measurement purposes. Therefore it would be difficult to be in compliance with the proposed regulation simply based upon this one additional test.

704.8 (h) Weighted Average Life (WAL)

The proposed WAL of two years is far too restrictive and unrealistic. It will limit the ability of corporates to provide longer-term investment and liquidity options. There are many different scenarios and situations that are presented to corporates each day from many credit unions with different needs. Given a 15 year WAL limit, corporates should be able to work with almost any scenario a credit union might present them and still make a decent spread with adequate cash flows.

704.8 (f) Cash Flow Mismatch Analysis

This analysis subjects all amortizing investments to the same slowdown in prepayment speeds despite the fact that historically, non mortgage prepayment speeds are rarely the same as mortgage-backed securities. It is extremely difficult to identify what additional prepayment speeds should be used to an already amortizing investment. There is also the difficulty of identifying what prepayment speed to use when rates are moving up instead of down because the prepayment speed for example, is different when moving up to eight percent than down to eight percent. These scenarios are not tracked very well much less understood. Prepayment speeds can influence results drastically and would not be consistently applied for all the different situations.

Ability/timeframe to meet Leverage Ratio

If none of the above ALM testing requirements are revised, I doubt that any corporate credit union could design a business model that would generate sufficient earnings to build their capital at the pace required to meet the benchmarks for the new leverage ratio requirement. With the proposed limits on types, terms and inherent spreads, it would be impossible to meet the periodic retained earnings benchmarks.

Replenishment of Member Contributed Capital

I can't emphasize enough that 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. Regardless of how many experts model the projected losses, nobody knows exactly what the losses are going to be when all is said and done. I know that the ACCU and CUNA have proposed mechanisms that would facilitate the ability to recapture that lost capital. This needs to be included in the final regulation, and corporates should not be prevented from replenishing contributed capital first and PIC last if actual losses are less than expected and the corporate has meet all regulatory capital requirements. Remember, that contributed capital was required, where as PIC was a matter of choice by each credit union. Why should any other entity benefit if losses are less than what was paid for upfront based upon your loss estimates?

704.3 (d)(3) Standards for determination of appropriate minimal capital requirements

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. Why write a 254 page regulation with capital standards and benchmarks documented and in place and yet give the OCCU Director massive latitude to basically ignore the requirements at anytime for any reason? Is the OCCU Director always going to be the one that makes this decision? This gives too much power to one individual and at the very least the NCUA board should have to approve any type of decision regarding the change of a corporate credit union's capital designation.

I recommend 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.

704.9(b) Borrowing Limits

Shouldn't the characteristics of corporates borrowing fit the various offsetting instruments that meet the needs of their membership? Much like that of a natural person credit union!

It also seems odd to me that "Central Liquidity" our lender of last resort, borrows and lends for a minimum of 90-days but we're going to restrict the corporate system liquidity guidelines to borrowings of 30-days or less. This restriction should be removed from the proposed regulation as it could prevent corporates from fulfilling a key function that all credit unions heavily rely on.

704.14 Board Representation

It would seem better if the proposed term limits for directors be changed from six consecutive years to nine years with 1/3 rotation every three years.

704.8 c Penalty for Early Withdrawal

Leave this area alone as this is one area that sets corporates apart from the competition. It is not broken so don't try to fix it.

Clearly there was a problem that needed to be addressed but I sincerely question whether revamping the whole system is the answer and would instead only cause more problems than it fixes. The system has worked well for many years and if proper oversight had occurred, it is my opinion that we would not be facing the huge problem we had to deal with last year. Just fix the problem and leave the rest of it alone. Does NCUA truly have an open mind regarding the future of the Corporate Network or is a pre-determined plan already in place?

I want to see corporate credit unions be given every opportunity to continue to provide valuable services and products and continue to be our strategic partner into the future. I hope that these comments, along with those of my fellow credit union leaders, will assist you and your board in making good sound decisions and not quick reactionary decision based on little information that has not been tested over long periods of time. We need to do things that strengthen our industry not weaken it.

Sincerely,

Bob Meyer,
VP & CFO
Cessna Employees CU in Wichita, KS