March 9, 2010

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

Subject: Comments on Part 704 Corporate Credit Unions

Dear Ms. Rupp:

On behalf of Greater Nevada Credit Union (GNCU), I would like 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. GNCU is the largest credit union based in northern Nevada, serving over 50,000 members.

You will likely notice that much of the body of this comment letter mirrors the one submitted by the California and Nevada Credit Union Leagues. That is because we share the same concerns as our League regarding the proposed amendments. However, in addition to the specific issues cited by our state trade association, we would like to also express concern on two general matters pertaining to the proposal:

Beyond these issues, we now present most of those cited by the California and Nevada Credit Union Leagues. However, we have made numerous modifications to some of these items, and they should therefore be considered to be the positions of GNCU.

Critical Issues of Concern

1. Time Period for Capital Ratio Attainment
2. Retained Earnings Growth Model
3. Average-Life NEV Testing
4. Weighted Average Asset Life
5. Legacy Assets
6. Qualifications of Directors
7. Consolidation of Corporate Credit Unions
8. Premium for Early Withdrawal on Corporate Certificates

- ***Other Areas of Concern***

9. Perpetual Contributed Capital
10. Payment of Dividends
11. Concentration Limits

12. Corporate Credit Union Service Organizations
13. Credit Ratings
14. Overall Limit on Business Generated from Individual Credit Unions
15. Disclosure of Executive and Director Compensation
16. Lost Opportunity for Full Participation and Improved Transparency

Critical Issues of Concern

GNCU is deeply concerned that if the following issues are left unchanged, there will be severe, and possibly unrecoverable, repercussions to corporate credit unions, which in turn would have harmful effects on the natural person credit unions that rely upon them.

1. Time Period for Capital Ratio Attainment

As drafted. the one year window required by the proposal to attain the risk-based capital ratios (i.e., the 4% Leverage Ratio) will require corporates to bring in new capital or, at a minimum, convert existing MCA to the new PCC during a time when significant issues remain unresolved regarding legacy assets. Due to a lack of sufficient retained earnings at most corporates, and an inability to grow retained earnings at a rate required by the proposed rule (see discussion below), member credit unions will likely be asked to contribute approximately 4% of the corporate credit union deposits as perpetual capital within 12 months of the publication date of the final rule.

It seems certain that no credit unions will be willing to contribute additional capital in such a short time frame, and in such an uncertain environment. Indeed, some credit unions may decide to pull their deposits from the corporate system as the result of such a precipitous move to achieving a 4% Leverage Ratio via PCC. This, in turn, would lead to liquidity concerns for corporates.

Recommendation: We recommend that NCUA clarify its intention with respect to the time period for capital ratio attainment. Given the unavoidable reality that credit unions will need longer than one year before they will feel comfortable recapitalizing corporates, we urge NCUA to recognize that: (a) some kind of financing or capital note (equivalent to 4% of a corporate's balance sheet) will be required to meet corporates' operational needs; and (b) the proposal's time period for attaining the risk-based capital ratios must be extended to at least three years.

2. Retained Earnings Growth Model

We take issue with the assumptions regarding a corporate's ability to grow retained earnings under the proposed investment and ALM limitations (pages 99-101 in the proposed rule), and are of the opinion that it does not represent a reasonable or attainable mix.

NCUA Model

	NCUA EXAMPLE	
	PERCENT OF BALANCE SHEET	SPREAD TO LIBOR
ASSETS		
FFELP Student Loans	20%	25
Private Student Loans	10%	200

Auto ABS	20%	25
Credit Card ABS	10%	30
Other ABS	10%	10
Overnight	30%	0
TOTAL	100%	**34**
SHARES AND EQUITY		
Overnight Shares	30%	0
Certificates	70%	0
Capital Notes	0%	0
TOTAL	100%	0
NET INTEREST MARGIN		**34**
OTHER INCOME		**17**
OPERATING EXPENSES		**30**
NET INCOME		**21**

For example, NCUA's model appears to work because it allocates 10% of the investment portfolio to private label student loans, a fairly high risk and extremely illiquid sector. This is on top of a 20% allocation in government guaranteed student loans. It seems unrealistic and unsound to allocate 30% of a portfolio to the student loan sector, as it is doubtful that a corporate could even find enough of these assets to make such a model work. This single sector accounts for 75% of the interest income, which is an extremely high concentration around which to build a business model. Even more startling is the realization that private student loans (10% of the portfolio) account for 68% of interest income and, subsequently, 39% of net income. It is surprising in these times when many natural person credit unions are being criticized by NCUA for being overly reliant on one or two lines of business that the agency would put forth such a business model that is neither soundly structured nor realistic.

In addition, the model assumes funding using a deposit mix of 30% overnight shares and 70% certificates. This assumption is not valid, as other provisions of the proposal (e.g., the early withdrawal premium provision for certificates) will create a major disincentive for corporate term funding. Finally, the model does not provide any cost of capital in its assumptions. This omission further weakens the credibility of the retained earning growth outcomes presented.

Further, the model appears to provide little opportunity for diversification, which will make retained earnings growth that much more difficult to realize. Such a business model is unreasonable and counterproductive and, ultimately, will be crippling to the corporate network. For example, without an ability to generate earnings from investment risk, corporates will not be able to keep payment system fees down, forcing a move from a cooperative payment system pricing model to a market-based, for-profit model. This will have a pronounced effect on natural person credit unions, as they will be saddled with much higher fees (we have seen analysis which indicates a potential increase in fees of 2 to 3 times current levels), as well as the possibility of obtaining and maintaining new payment services relationships.

The adjusted model below created by the Association of Corporate Credit Unions (ACCU), illustrates a more realistic outcome, and highlights the need to make necessary revisions to the proposed assumptions and limitations. This model is based on a $10 billion dollar balance sheet for example purposes and assumes no growth in assets or asset mix. Spreads are adjusted downward by 2 or 3 bps over the 7-year time horizon to reflect industry expectations. Funding has been modified to include a capital note of $400 million (4% capital assuming a $10 billion balance sheet) issued on day one, priced as floating at a spread of 200 bps to LIBOR. The adjusted model also assumes that fees and operating expense will increase in line with inflation at an assumed rate of 2% per annum.

NCUA Model Adjusted for Capital and Spreads

	NCUA EXAMPLE		ADJUSTED FOR CAPITAL		ADJUSTED FOR SPREAD	
	PERCENT OF BALANCE SHEET	SPREAD TO LIBOR	PERCENT OF BALANCE SHEET	SPREAD TO LIBOR	PERCENT OF BALANCE SHEET	SPREAD TO LIBOR
ASSETS						
FFELP Student Loans	20%	25	20%	25	20%	25
Private Student Loans	10%	200	10%	200	10%	**50**
Auto ABS	20%	25	20%	25	20%	25
Credit Card ABS	10%	30	10%	30	10%	30
Other ABS	10%	10	10%	10	10%	10
Overnight	30%	0	30%	0	30%	0
TOTAL	100%	**34**	100%	**34**	100%	**19**
SHARES AND EQUITY						
Overnight Shares	30%	0	30%	0	30%	0
Certificates	70%	0	66%	0	66%	0
Capital Note	0%	0	**4%**	**200**	4%	**200**
TOTAL	100%	**0**	100%	**8**	100%	**8**
NET INTEREST MARGIN		**34**		**26**		**11**
OTHER INCOME		**17**		**18**		**18**
OPERATING EXPENSES		**30**		**32**		**32**
NET INCOME		**21**		**12**		**-3**

As the adjustments for capital costs, LIBOR spreads, and operating expenses indicate, rather than realizing positive net income of 21 bps, the hypothetical corporate credit union would realize negative net income of -3 bps.

The following alternative model by ACCU illustrates probable investment portfolio performance over a 6-year period using realistic and prudent sector mixes and spreads:

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Longer-Term Analysis Projected Over 6 Years

LONGER-TERM ANALYSIS

	BASE EXAMPLE		REQUIRED VOLATILITY	
	PERCENT OF BALANCE SHEET	SPREAD TO LIBOR	PERCENT OF BALANCE SHEET	SPREAD TO LIBOR
ASSETS				
Loans	10%	50	10%	50
ABS - Autos	20%	37	20%	37
ABS - Credit Cards	15%	42	15%	42
FFELP Student Loans	5%	45	5%	45
Structured Agency	15%	34	15%	34
Bank Floaters	5%	29	5%	29
Other Short-term	8%	12	8%	12
MBS - CMBS	7%	100	7%	100
Overnight	15%	4	15%	4
TOTAL	100%	**36**	100%	**36**
SHARES AND EQUITY				
Overnight Shares	50%	0	50%	0
Certificates	46%	0	46%	0
Capital Note	4%	200	4%	200
RUDE	0%	0	0%	0
TOTAL	100%	**8**	100%	**8**
NET INTEREST MARGIN		**28**		**28**
OTHER INCOME		**18**		**18**
OPERATING EXPENSES		**32**		**32**
NET INCOME		**14**		**14**

MAXIMUM CHANGES YEARS 1,3 AND 6

RETAINED EARNINGS	PROJECTED	TARGET	RETAINED EARNINGS	PROJECTED	TARGET
YEAR 3	$44.4mm	$45mm	YEAR 3	$44.4mm	$45mm
YEAR 6	$97.3mm	$100mm	YEAR 6	$97.3mm	$100mm
NEV SHOCKS	**MAXIMUM**	**LIMIT**	**NEV SHOCKS**	**MAXIMUM**	**LIMIT**
RATES +300bps	-14.0%	15%	RATES +300bps	-14.0%	-15%
CREDIT +300bps	-84.3%	15%	CREDIT +100bps	-30.3%	-35%
+PAYDOWNS -50%	-92.6%	25%	+PAYDOWNS -50%	-32.7%	-40%

In summary, with an investment mix that includes loans, ABS-Autos, ABS-Credit Cards, FFELP Student Loans, Structured Agency, Bank Floaters, Other Short-term, MBS-CMBS, and Overnight, it is projected that net income of 14 bps can be realized. However, we must point out that even this margin would be insufficient to meet the proposed capital targets. Even at 14 bps, a corporate would be short 7 bps of NCUA's model projected net income of 21 bps.

Recommendation: NCUA should provide independent, third-party "proof of concept" validation of the Agency's business model presented in this proposal or any alternative proposal. A proper assessment must do more than just "test the math." A credible assessment will test the assumptions and ultimate viability of the proposed business model.

Beyond what we believe are obvious failings of the proposed retained earnings growth model, we are very concerned about the broader implications of what is reflected in this section. It appears that NCUA envisions the shrinking of corporates' balance sheets. Such movement would not only represent a fundamental change to the corporate business model—a fact which lies unaddressed by the Agency in its proposed model and assumptions—but would also result in a shifting of the investment function to natural person credit unions. Obviously, corporates possess far more in the way of experience, expertise, and resources (e.g., people and software) to manage this function than does the typical natural person credit union. We strongly believe such a "managing down" of corporate balance sheets to the natural person credit union tier would introduce greater instability, risk, burden, and costs into the credit union system, and would pose ever greater risk and losses to the NCUSIF.

This consequence of NCUA's retained earnings growth model proposed is alarming and a further indication of the impractical and non-synchronous nature of the proposal. There is significant past history that shows that management of smaller institutions often do not possess the expertise or resources to do the appropriate due diligence necessary to ensure that outside entities they engage for such services operate in the best interests of those credit unions. Prior to the popularity of corporate credit unions as investment outlets there were far too many instances of less than scrupulous investment brokers selling smaller natural person credit unions illegal investments that neither delivered the yield they promised nor served as an adequate secondary source of liquidity. This resulted in some significant financial issues for some of these smaller credit unions, and directly led to the demise of several of them.

In fact, it was for this reason that throughout the 1990's and into the first several years of this century, many seasoned NCUA examiners and senior regional staff actively encouraged smaller natural person credit unions to concentrate their investment holdings in larger corporate credit unions. This was because it was understood that those corporates had far greater investment expertise and therefore helped stem a significant safety and soundness concern for the smaller credit unions. If those options no longer exist, we are concerned that this would push significant additional risk downstream into smaller natural person credit unions. Since the resources of those institutions are already extremely limited and strained with the multitude of compliance issues they already face, we do not believe that such risk could be effectively overcome simply with agency mandates requiring greater education of their staffs and more due diligence on their investment portfolios.

Recommendation: Given the severe risks posed to natural person credit unions and the share insurance fund, we recommend that NCUA consider the unintended consequences of pushing the investment function down to natural person credit unions that, for the most part, lack adequate expertise to safely manage investment portfolios.

3. Average-Life NEV Testing

The proposal requires average-life mismatch net economic value (NEV) modeling/stress testing, in addition to existing interest rate risk (IRR) NEV modeling, to include:

- A 300 basis point credit spread widening, coupled with a NEV ratio decline limited to 15 percent;
- A 50 percent slowdown in prepayment speeds to determine if the corporate has excessive extension risk; combined with
- A portfolio/asset limit of two years in average weighted life.

Our League is very troubled by analyses which indicate that there is no combination of assets—with a two-year average life and limited extension risk—that could generate sufficient margin to attract funding *and* pass a 300 basis point credit shock test. GNCU shares this concern. Further, the proposed limitations placed upon a corporate by these tests would not allow corporates to generate sufficient interest margin to build retained earnings to meet the new capital requirements contained in the proposal. (The 2 year average weighted life limitation will make holding Agency and Private Label Mortgage Backed Securities—the largest sector of potential investments—virtually impossible for corporates.) Any ability to generate a reasonable interest margin in order to build retained earnings will become very dependent upon a lower cost of funds for corporates, which means a lower yield paid to members.

In our view, the proposed spread widening of 300 bps appears to be an over-reaction by NCUA to a once-in-a-lifetime, completely unique event. Historical analysis indicates that, over the past 15 years, excluding recent events, credit card and auto ABS credit spreads to LIBOR widened to a maximum of approximately 50 bps, and generated a standard deviation of spread volatility of approximately 10 bps.

Recommendation: We believe it would be more realistic to set the credit shock test at 100 bps widening – double the historical average. Even at 100 bps credit shock, a NEV volatility limit of 35 percent decline is needed to accommodate the impact of floating-rate investments carrying the loss to maturity. Therefore, the Leagues urge the NCUA to amend this test to a 100 bps credit spread widening and a 35 percent NEV volatility tolerance limit.

4. Weighted Average Asset Life

This provision limits the weighted average life (WAL) of a corporate credit union's aggregate assets to two years and includes loans to members. Such a requirement will have adverse implications for natural person credit unions seeking to fill liquidity needs with term loans from corporates. In order to keep the overall WAL of its portfolio within the two year limit, most of the loans made by a corporate will be limited to shorter-term maturities. For longer-term loans, a corporate will have to substantially increase the rate offered in order to compensate for the impact the longer term will have on its two year WAL test.

As a result, long-term financing to natural person credit unions will be drastically reduced, and will come with a much higher borrowing cost. Currently, less than 25% of California and Nevada credit unions are members of the FHLB. The remaining credit unions rely on a corporate to obtain term lending. Therefore, the two year proposed limitation will force hundreds of credit unions in California and Nevada alone to seek less beneficial, or more expensive, funding from other sources. It should also be noted that given the financial condition of many of those NPCU's, obtaining additional liquidity sources at this time would likely be impossible in practical terms. This would potentially exacerbate significant systemic issues within the industry during this delicate time.

In addition, many natural person credit unions use longer term borrowings to mitigate interest rate risk. A limitation on borrowings from corporates to two years would take away an important tool for these credit unions.

Recommendation: We ask the Board to exclude loans from the calculation of weighted average life of the investment portfolio. After all, the original purpose of corporate credit unions was to enable financial intermediation between credit unions—not only their short term needs but also medium and long term needs. Whatever changes NCUA makes to the WAL of corporate assets, it must consider appropriate adjustments to the liabilities side of corporate balance sheets.

5. Legacy Assets in Corporate Credit Unions

While we are aware that NCUA has made public statements indicating that it will announce plans in April 2010 for addressing legacy assets, we are puzzled as to why this critical topic is not mentioned at all in the proposed rule. Dealing with investment securities remaining on corporates' books is vital to realizing any lasting, consequential changes to the corporate system. These assets—by some estimates believed to represent as much as $30 billion in eventual losses, or one-third of all natural person credit union net worth—continue to create instability in the network, and serve as a major disincentive to credit unions providing any future capital contributions. No investor will invest unless the toxic assets are segregated so that new capital is not at risk. We believe that failure to address this issue invites the weakening of even currently stable corporates, and would serve to negate the positive changes that NCUA and credit unions would like to see in the corporate system.

Recommendation: Our League has strongly urged NCUA to cooperatively and transparently address the business and regulatory issues associated with these assets so that corporate credit union balance sheets can start with a "clean slate," rather than from a negative position, and we concur. We would like to point out that, in addition to the proto-typical assets on corporate balance sheets, NCUA should also address any problem assets that may reside on the balance sheets of corporate credit union service organizations.

6. Qualifications of Directors

The proposal requires, as qualification for directorship, that all candidates must currently hold the equivalent of a CEO, CFO, or chief operating officer (COO) position at the member institution (typically, though not always, a natural person credit union). We do not agree that a particular job title necessarily makes for a better board member, and instead suggest that NCUA consider that directors of corporates that may not have full experience or training needed in a particular area be required to obtain training on an annual or other periodic basis as a condition of service on a corporate board. There are a variety of credit union training programs, schools, online resources for board members which the NCUA could evaluate (possible every one to two years) and approve for use to meet such a standard. The goal should be that directors serving on a corporate credit union board have sufficient "skin in the game" and analytical ability to effectively look after member credit unions' interests.

We are of the opinion that a maximum of twelve years (as compared to six) provides a more reasonable and useful time for training and developing directors as well as for benefiting from the investment in their development. Extending the term limit to twelve years further allows for much needed continuity for a corporate without compromising the benefits that may be realized from bringing on new directors.

Recommendation: GNCU disagrees with the proposed six year term limit for corporate directors, and instead propose that this be changed to a twelve year limit. Further, we believe that outside directors with investment expertise should be permitted to serve, as long as adequate safeguards are in place to address conflicts of interest between an outside director's professional investment interests and his/her responsibility to preserve the confidential and proprietary interests of a corporate credit union.

7. Consolidation of Corporate Credit Unions

As stated in our comment letter on last year's corporate ANPR, the Leagues believe that corporate consolidation would be beneficial to the system, and that NCUA should be more open, responsive, and supportive of such consolidation by removing unreasonable impediments and/or resistance to corporate credit union mergers. We recognize that the current number of corporates is less than ideal with respect to efficiency and effectiveness (e.g., potentially redundant member capital requirements, duplication of expertise, staffing, and infrastructure). While we understand and approve of NCUA's avoidance in dictating the number of corporates in the system, we would like to see more open dialogue between NCUA, corporates, and credit unions regarding consolidation scenarios including the effect it would have on the viability of the entire credit union system. In identifying the "best" business model for corporates in the future, it is worthwhile to contemplate how much stronger and more valuable corporate credit unions would be to the nation, credit unions, and consumer-members if they adopted an FHLB-type model wherein corporates could raise money from selling bonds with the full faith and credit of the Treasury to support consumer and small business lending.

Recommendation: CCUL/NCUL would welcome a frank and candid discussion—possibly as part of a subsequent round of rulemaking—about the efficiency, effectiveness, and sustainability of a single corporate credit union with multiple regional offices. We believe that such a discussion should include the assessment of elements of the Federal Home Loan Bank model that might be successfully imported into the corporate system.

To summarize, the Leagues firmly believe that the Board should forego finalizing the above critical issues in their current proposed form, and should carefully assess all comments and analysis NCUA receives from commenters regarding the viability and reasonableness of the tests and the two year average weighted life limitation, as well as the capital ratio attainment and the retained earning growth assumptions. NCUA should also review whether historical trends justify the proposed tests and thresholds. Further, NCUA should transparently clarify how it intends to deal with legacy assets that remain on the books of corporate credit unions and what impact there will be on natural person credit unions upon the disposition of assets in question. Lastly, the Leagues believe that, in the spirit of transparency and fairness, NCUA should publicly provide its modeling tool and/or assumptions. Our doubts and concerns regarding these proposed provisions are further amplified when we consider that NCUA may choose to incorporate them into planned revisions to Part 703, which will have similar, debilitating effects on natural person credit unions.

8. Premium for Early Withdrawals on Corporate Certificates
This proposed provision limits a corporate credit union's ability to pay a market-based redemption price to no more than par, thus eliminating the ability to pay a premium on early withdrawals. Such a change will pose a significant disincentive for member credit unions seeking liquidity, and will likely lead them to seek more competitive investing options than corporates. Many smaller credit unions take advantage of a non-penalty option to manage liquidity, especially if they do not invest in securities.

Such a change will also have the effect of increasing corporates' funding costs. Even if a corporate desired to raise their yield in order to compete, it would be unlikely that they could generate sufficient earnings to cover the increased rate. As a result, corporates' institutional funding market for term certificates will be severely impaired—or even wiped out—which will lead to a significant reduction in overall liquidity in the corporate credit union system.

Recommendation: Therefore, GNCU strongly urges the Board to strike this proposed requirement from the final rule, as it is not only counterproductive to maintaining corporate liquidity and natural credit union investment options, but would likely have long-lasting and harmful effects to the system.

Other Areas of Concern

9. Perpetual Contributed Capital
GNCU support eliminating the current prohibition on a corporate requiring credit unions to contribute capital to obtain membership or receive services. (In other words, a corporate can choose or not to require credit unions to contribute capital in order to receive services from that corporate.) We are of the opinion that leaving this decision to the board and management of a corporate credit union provides appropriate flexibility, and applaud NCUA for proposing this change.

10. Payment of Dividends
The proposal will prohibit an undercapitalized corporate, unless it obtains NCUA's prior written approval, from paying dividends on capital accounts. A blanket prohibition is counter-intuitive and potentially counter-productive for the future re-capitalization of the corporate credit union system. Capital accounts, as natural person credit unions have painfully learned, are riskier than insured deposits. To balance that higher risk, investing credit unions will be reluctant to contribute capital without the promise of a higher return to compensate for the added risk. Indeed, in public comments, NCUA officials have observed that past behavior of corporate credit unions and natural person credit unions with regard to administration of corporate capital accounts, had been "backwards" in that lower returns were being paid and accepted on riskier investments.

While we understand the operational questionability of paying dividends on paid-in capital when an undercapitalized financial institution needs to maximize retained earnings to build capital, we strongly believe that this is a case-by-case decision properly made by the board and management of a corporate credit union in the context of the interest rate environment at a given moment in time. Further, the proposed retained earnings target will serve as a built-in constraint on paying dividends.

Recommendation: NCUA should not impose a blanket prohibition on undercapitalized corporates from paying dividends on capital accounts. NCUA should, instead, rely on a retained earnings target—to be developed, presumably, in the next round of proposed rule-making—to serve as a built-in constraint on the payment of dividends.

11. Concentration Limits

As written, federal funds transactions are not specifically excluded from the sector concentration limits. As a result, corporates would have severely limited access to the federal funds market. This will have the harmful effect of reducing the overnight rates that member credit unions receive from their corporate. In addition, it would reduce natural person credit union ability to access or engage in a market-based overnight investment option.

Recommendation: To address this, the Leagues recommend that the definition of deposits in 704.6 (d) be amended to include Federal Funds or, alternatively, that the exemptions from sector concentration limits include Federal Funds transactions. Also, the Leagues further recommend that 704.6(c) be changed to allow a larger single obligor limit of 200% of capital on money market transactions with a term of 90-days or less. An alternative solution might be to specifically allow a single obligor limit of 200% of capital for Federal Funds transactions sold to other depository institutions.

12. Corporate Credit Union Service Organizations

The section of the proposal adds a very short list of permissible corporate CUSO activities (consisting of brokerage services, investment advisory services, and other categories as approved by NCUA). The Leagues ask the NCUA for clarity in the form of definitions or additional information regarding permissible activities, which are surprisingly scant and inadequately defined in the proposal. Further, it is unclear what would happen regarding corporate CUSOs which currently engage in activities not listed in the proposal. Would these activities be grandfathered? Would the NCUA subject them to an approval process? We believe these issues must be addressed in order to avoid credit union uncertainty or concern regarding services provided by these CUSOs.

This section of the proposal also provides for expanded access by NCUA to a corporate CUSO books, records, and facilities. We respectfully disagree with this proposed expansion. While NCUA has unparalleled skill and knowledge in examining credit unions, this expertise would not necessarily translate into efficient and effective examination of other business entities, and other business products. Indeed, some CUSOs and their activities are already examined by state regulatory agencies, so NCUA oversight would be a redundant and inefficient use of the Agency's resources. The Leagues also note that, in the case of a CUSO with both state and federal credit unions owners, NCUA has access to the CUSO's books and records through the federal credit union owner(s).

We disagree with a blanket expansion of access to CUSOs by NCUA especially where potential losses do not meet the test of materiality. However, we do understand that there may be situations—such as CUSO activities which involve greater risk to a corporate, and/or in situations where a corporate has a controlling interest in a CUSO—which warrant greater access by the Agency. For example, CMBS and SimpliCD may pose the threat of *material* losses in contrast to a corporate's minority interest in MDC or CUDL In addition, we appreciate that NCUA's objective may be to limit corporate ability to shift non-performing assets off-balance sheet through corporate CUSOs.

<u>*Recommendation*</u>: NCUA should clarify definitions or additional information regarding permissible CUSO actitivities and the grandfathering of current but unlisted CUSO activities. Also, NCUA should utilize the concept of "materiality" to determine the extent of NCUA's access to CUSO books, records, and facilities. NCUA's reach should be restricted to CUSO activities that represent material risk.

<u>13. Credit Ratings</u>

We appreciate NCUA's de-emphasis of NRSRO ratings, and generally agree with using ratings in order to exclude an investment, not as authorization to include an investment. However, we believe that the requirement to obtain multiple ratings will be problematic, as some securities only have one NRSRO rating.

<u>*Recommendation*</u>: We urge NCUA to consider permitting an exception to the multiple rating requirement in situations where there is only one rating and, more broadly, to provide further elaboration in the proposal on what standards, methods, or tools corporates should use in analyzing credit ratings.

<u>14. Overall Limit on Business Generated from Individual Credit Unions</u>

This provision prohibits a corporate from accepting from a member credit union *or other entity* any investment in excess of 10 percent of the corporate's daily average net assets, with the objective of reducing risks that could arise from placing undue reliance on a single entity. We agree that such a limitation is prudent and reasonable from a liquidity management standpoint. However, we understand that many corporates avail themselves of inter-month funding when needed to address short-term liquidity volatility. Typical sources of these funds include the Federal Reserve Bank and the Federal Home Loan Bank. Therefore, including "or other entities" in the 10 percent limit may force corporates into short-term borrowing with less favorable terms. It would force corporates to maintain larger cash balances, which would likely be detrimental to earnings. The Leagues are concerned that this provision, as written, may limit corporates' ability to provide their credit unions with reasonably priced short-term liquidity.

<u>*Recommendation*</u>: Our League suggested that NCUA consider allowing borrowings with a maturity of 30 days or less from either the Federal Reserve Bank, a

Federal Home Loan Bank, a Repurchase Agreement counterpart or a Federal Funds counterpart, in excess of 10% of the corporate credit union's moving daily average net assets. Alternatively, since the objective is to limit risk associated with a single *credit union*, this issue could be most simply addressed by eliminating the "or other entity" language of the proposed limitation. GNCU concurs with these suggestions.

15. Disclosure of Executive and Director Compensation

The requirement to disclose all compensation between a corporate and its senior executives — defined as a chief executive officer, any assistant chief executive officer (e.g., any assistant president, any vice president or any assistant treasurer/manager), and the chief financial officer— goes deeper than industry requirements for banking counterparts and, for a large, complex corporate with many vice presidents and assistant managers, could mean disclosure of compensation for non-executive staff. We believe that this requirement goes well beyond expected and necessary practice. As NCUA has indicated that this provision mirrors IRS Form 990 with regard to information and access process, we believe it is sensible and desirable for NCUA to align its compensation disclosure requirements with IRS Form 990 guidelines.

Recommendation: Per IRS practice, we recommend that the definition of "senior executive" in this provision be modified to conform with Form 990 definitions (e.g., "officers," "key employees") and limitations (e.g., only over $150,000 reportable compensation for key employees). Consistent with the Form 990 disclosure requirements, we also advise NCUA to require compensation disclosures *upon request only* rather than require annual outward reporting of compensation which can be abused by the press to the detriment of the credit union system. Furthermore, corporates should only be required to honor compensation disclosure requests made by bonafide members of the corporate. In lieu of outward annual reporting of compensation information, we would support a requirement to annually announce the *availability* of compensation information upon member request.

16. Lost Opportunity for Full Participation and Improved Transparency

We are extremely concerned by the agency's decision to shut down the communication efforts by the staff of Wescorp on the proposed amendments. We recognize that NCUA, as conservator, is employing that staff and, therefore, has legitimate concerns about apparent conflicts of interest. However, GNCU continues to hold membership in that corporate credit union and conducts significant business with it as well. Therefore, we were looking forward to opportunities to garner the opinions of that professional staff who clearly knows far more appropriate business models for these specialized entities than do most natural person credit union professionals. As a result, we believe that NCUA lost an excellent opportunity to allow for full participation of those professionals and to demonstrate the increased transparency that those at the helm of the agency have been promising for the last twelve months.

Recommendation: We ask NCUA in the future to allow the participation of all interested parties when addressing matters of such a critical nature to the industry. Arbitrarily excluding professionals that have high levels of expertise can only serve to weaken both the process and the resulting end product, which should be unacceptable, especially in the case of such a vital regulatory matter like Part 704.

In conclusion, we absolutely agree with our League in urging the Board to strike an effective and fair balance between preventing a repeat of past corporate failures and allowing a viable corporate credit union system to thrive. We also agree with their request seeking that NCUA withdraw this proposal and consider another round of proposed rule-making with a 90-day comment period by the credit union system before issuing final rules. The matter of corporate credit unions, and their importance to natural person credit unions, is far too important to the industry in the short-term and long-term to enact this amendment as it is currently drafted.

Sincerely,

Wallace Murray
President/CEO
Greater Nevada Credit Union