



March 9, 2010

Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street, Suite 4206
Alexandria, VA 22314-3437

Re: *Comments on Proposed Revisions to NCUA Part 704, Corporate Credit Unions*

Dear Ms. Rupp:

Thank you for the opportunity to comment on the future of corporate credit unions by commenting on the proposed changes to NCUA Part 704 Corporate Credit Unions. Unitus Community Credit Union (“Credit Union”) is a state chartered credit union in Oregon. The Credit Union has assets of \$815 million and operates eight branch offices serving approximately 68,000 members. The Credit Union utilizes a variety of products and services offered by corporate credit unions including Credit Services, Broker Deposits, Investment Services, Settlement Solutions, Funds Transfers, Check 21, Check Imaging, Coin and Currency and Safekeeping.

On behalf of Unitus, we fully support NCUA’s goal to strengthen the corporate credit union system and corporate credit union operations to provide benefits and reduce risks to the credit union industry. We also support NCUA regarding those regulatory changes that will mitigate risk and address issues that threaten the safety and soundness of corporate credit unions including: stronger capital requirements; increased limits on single obligors; concentration limits on certain investment sectors; and prohibitions on certain high risk securities. However, we cannot support other proposed regulatory changes that result in unnecessary regulation of the corporate credit unions or that do not benefit their operations or reduce risk, but further threaten corporate credit union operations.

We believe the Proposed Rule contains several requirements that would significantly impair a corporate credit union’s ability to provide viable products and services to member credit unions, particularly small credit unions.

1. Legacy Assets/Recapitalization.

We have fundamental concerns that the Proposed Rule assumes that credit unions will recapitalize corporate credit unions based on these proposed reforms alone. That assumption cannot be made until NCUA addresses one critical issue—how NCUA will resolve the disposition of corporate credit union legacy assets. For any corporate recapitalization to be successful, new capital must not be exposed to the potential losses from legacy assets. Until an effective solution to the legacy asset issue is crafted, the recapitalization of corporate credit unions is unlikely to occur and many of the reforms in the Proposed Rule will have little relevance.

Our Credit Union would not be prepared to consider a corporate credit union recapitalization with the potential that additional OTTI related to existing legacy assets will immediately impair any new capital. Therefore, we urge NCUA to address the fundamental issue of legacy assets first and foremost and to extend the current comment period until the NCUA discloses its plan for legacy assets.

2. Net Economic Value (NEV) Testing – Section 704.8(e).

We agree that NEV testing is a valuable and necessary tool for corporate credit unions to manage interest rates and liquidity risk in their portfolios. However, we believe that the two new, proposed tests (Shock Test and Slow Down) are unrealistic and prohibitively restrictive. First, a 300 bps shock is not representative of any historical norm and a 100 bps is double the historical average. Such unrealistic test thresholds are difficult to meet except on a Treasury investment portfolio. However, the investment returns from such a portfolio will not permit corporates to realize and retain any earnings. Second, these tests do not recognize relevant differences between asset classes rather they treat all assets the same. We urge NCUA to reconsider more realistic NEV tests to more appropriately balance the need to control risk, yet permit corporate credit unions to maintain investment portfolios that generate earnings. We believe more limited shock tests, higher risk exposure limits (25%-30%) and shock tests based on various select investment sectors (e.g., residential MBS, commercial MBS, and other asset backed security sectors) will better achieve the goal of managing the applicable interest rate and liquidity risks.

3. Premium Redemption Restriction on Certificates – Section 704.8(c).

The proposed new limit on corporate credit unions' ability to redeem outstanding certificates of a natural person, even at a premium, is overly restrictive and detrimental to the entire corporate certificate market. We believe this new limitation unnecessarily disturbs the free market factors that permit corporate credit unions and member credit unions to properly price certificates and certificate withdrawals. Under the proposed restriction, corporate credit unions will be unable to provide certificates that permit a premium on early withdrawal, and member credit unions will seek other instruments with less punitive provisions. We urge NCUA to reconsider and withdraw its proposed limit.

4. Weighted Average Life – Section 704.8 (h).

The proposed rule would require that the weighted average life of a corporate credit union's investment portfolio, excluding derivative contracts and equity investments, not to exceed 2 years. Section 704.8 (e) of the Proposed Rule already imposes a limit on the maximum life of a corporate credit union's investment portfolio, specifically under this section, the weighted average life of a corporate's investment portfolio is limited by the aggregate cash flow mismatch between the corporate's assets and liabilities. In addition, the 2 year weighted average life limit may restrict a corporate credit union's ability to make full use of the Proposed Rule's permissible cash flow mismatch limitations, specifically in a future business environment in which a corporate credit union's liabilities, i.e. member shares, may lengthen significantly. We urge NCUA to eliminate the 2 year weighted average life requirement from paragraph 704.8(h) of the Proposed Rule, because paragraph 704.8 (e) of the Proposed Rule already limits the

weighted average life of a corporate credit union's assets based on the weighted average life of the corporate's liabilities.

5. Limit on Business from Members or Other Entity – Section 704.8 (k).

The Proposed Rule would prohibit a corporate credit union, after a phase-in period, from accepting from a member or other entity any investment, i.e. shares, loans, perpetual capital, or non perpetual capital accounts, if the aggregate of all investments from that member or entity would exceed 10 percent of the corporate's moving average net assets. Sound liquidity management requires diversification among sources of member shares, and also requires access to multiple external liquidity providers. The 10 percent limit on the amount a corporate credit union can borrow from any one entity, i.e. Federal Home Loan Bank, could unnecessarily restrict the corporate from having full access to all available external liquidity sources and could also limit the corporate's ability to effectively manage its liquidity. In addition, the proposed restriction on the amount that a corporate credit union can borrow from an external entity could unnecessarily limit the corporate's ability to gain access to reliable and stable liquidity sources in order to manage seasonal and intra-month fluctuations in member share balances. We urge the NCUA to withdraw its proposed limit.

6. CUSO Permissible Activities – Section 704.11(e).

The Proposed Rule would limit corporate credit unions' CUSO activities to a contracted list of CUSO services and prohibit certain services currently conducted by corporate CUSOs. Under the Proposed Rule, corporate CUSOs could not engage in or continue to conduct services such as: ALM services, business lending services, and card services. Many natural person credit unions currently rely on corporate CUSOs for these types of services. The proposed prohibition will result in service disruption, higher costs to credit unions for replacement services and a decrease in service income to corporate credit unions, all without any meaningful benefit or risk reduction. We urge NCUA to reconsider the proposed limitation in Section 704.11(e) and permit at a minimum, the same types of CUSO activities as are currently permitted and provided.

7. Corporate Governance – Section 704.14.

We understand and agree that corporate credit union boards should be represented by well qualified individuals with the background and experience necessary to manage the unique and complex business of a corporate credit union. We do not believe NCUA should impose further corporate governance requirements upon corporate credit unions. A requirement that each board member hold a current title of CEO, CFO or COO of a member credit union does not insure qualified candidates and it precludes many individuals who may be far more qualified and experienced, yet lack the necessary title to be eligible. We believe that a ratio should be established such as no more than one-third of the Board can consist of individuals with titles other than CEO, CFO or COO and that these individuals would need to demonstrate the expertise needed to serve on a corporate Board. Similarly, under the Proposed Rule, a board term limit of six years will arbitrarily restrict corporate credit unions from retaining their most experienced directors who are critical to the management of the complex operations of the corporate credit union and require unnecessary board turnover. A term

limit of 9-12 years would be more appropriate. Effective corporate governance of credit unions is not achieved by excessive regulation.

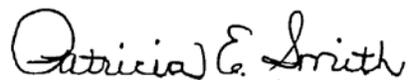
8. Compensation Disclosure – Section 704.19.

We believe the proposed requirement for public disclosure of the compensation of each senior executive officer and director is unnecessary and provides no discernable benefit to strengthen corporate credit union operations or the safety and soundness of the credit union industry. Currently corporate credit unions are fully accountable to their member credit unions with financial information including executive compensation if necessary or relevant. Also, NCUA and state regulators currently have full access to any compensation information. A required public disclosure does not benefit or strengthen the corporate credit union. On the contrary, full public salary and benefit disclosure beyond a corporate credit union's members and regulators, may cause highly qualified and experienced management executives to choose employment opportunities where their personal employment benefits are not subject to unlimited public scrutiny. We are also wary that, if this unnecessary disclosure is required for corporate credit unions, when will NCUA impose the same requirement on natural person credit unions. We believe that NCUA has other ways to manage the appropriateness of executive compensation in corporate credit unions, to include, but not limited to, the process used for determining a compensation philosophy based on market.

We respectfully believe the reforms to be achieved in the Proposed Rules should be carefully tailored to address actual safety and soundness concerns and to avoid added regulatory requirements that would not have any direct benefit in reducing risks or ensuring safety and soundness.

We appreciate the opportunity to provide our public comments to NCUA so that the corporate credit union system can be improved.

Sincerely,



Patricia E. Smith
President/CEO



Angelino T. Cayanan
Chief Financial Officer