March 10, 2010

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

Dear Ms. Rupp:

Palmetto Health Credit Union (PHCU) appreciates the opportunity to comment on the proposed changes to NCUA Regulation 704. As background, PHCU is a $54 million credit union owned by and serving the needs of 10,000 members in Columbia, South Carolina. We support a regulatory environment that prevents excessive risk-taking. It is important; however, that regulations allow for managed risk-taking to permit a viable corporate credit union system.

We applaud the changes within the proposed regulation that will improve the safety of the system, but we believe there are also sections of the proposed regulation that will diminish or eliminate the value a corporate credit union can provide PHCU. In our opinion, these sections of the proposed regulation will not provide a framework for a viable and competitive corporate credit union. The comments below focus on several key points of the proposed changes to Regulation 704.

The extinguishment of capital, as implied in 704.3, revolves around the fact that billions of dollars have been written down within the corporate network based on projections of future losses. These projections are speculative and may not be accurate. In the case where actual losses are much lower than projected, the corporate credit union will not be allowed to return any of these gains back to the capital holders who suffered the initial losses as a result of the projections. These gains would be recorded as recoveries and go directly to a corporate's retained earnings. This appears to be unfair to the capital holders who have recorded losses based on projections that may prove incorrect.

Another concern of the proposed requirements is the affect on the capital status of the corporate credit unions. According to the NCUA's own information, only two of the corporate credit unions would qualify as "adequately capitalized" under the proposed requirements. This brings to question as to the credit union's proper course of action when considering the security of third party vendors during our due diligence. While the intention is to support and participate in the corporate system, prudence may call for the re-consideration of other options.

We are very concerned with the subjectivity proposed in the regulation regarding NCUA's ability to amend a corporate's required capital levels, including downgrading a corporate to "undercapitalized" if it receives a single examination component rating of 3 or worse. The proposed regulation also states that capital "cannot be determined solely through mathematical formula, but must be based in part on subjective judgment grounded in agency experience." Subjectively derived minimum capital ratios make it nearly impossible to ensure that capital levels are adequate to safeguard credit union capital from being subjected to Prompt Corrective Action measures as described within the proposed regulation.

As to the matter of director term limits, it is our belief this is best left to the member credit unions of the individual corporate. The proposal is for term limits for corporate directors of 6 years (two 3-year terms). The impact to the board of our corporate will result in 7 of our 9 directors not being able to seek re-election. This increases the already significant burden of attracting and maintaining qualified individuals to serve as a corporate board member. For even the most qualified individuals, the learning curve for a corporate director requires sufficient time to acquire awareness and assimilate the subject matter to serve at an optimum level. Under the proposed regulatory requirements, individuals committed to service on the corporate board would be subject to the term limit at the height of their effectiveness. The increased turnover of candidates will result in an overall reduction in the experience of the corporate board of directors.

It is important to note a primary purpose of the corporate is to provide the credit unions with cooperative pricing and the opportunity to attain a competitive return on investments while assuring an increased level of security. This is a central function of the corporate system and provides member credit unions a safer option than dealing with the same investment options individually. The strategy of our corporate is to manage high credit quality assets and take minimal interest rate risk. To accomplish this goal corporate credit unions require flexibility in managing the mismatch between assets and liabilities. The current proposal unduly restricts this needed flexibility and will result in additional concerns for PHCU.

These are PHCU's major issues of concern in the proposed regulation. The concerns of the past practices contributing to the recent corporate system problems should be addressed and corrected. It is our desire that any resulting regulations will be able to correct these issues without unduly damaging the value and effectiveness of our corporate credit union. An effective and viable corporate credit union is critical to ensure PHCU has the investment and borrowing options and necessary protections to continue to grow and maintain a sound and secure operation.

Sincerely

Hansel B. Hart
President
Palmetto Health Credit Union