

From: [Reeves, Gail](#)
To: [Regulatory Comments](#)
Subject: Response to Proposed Rule for Corporate Credit Unions (12 CFR Part 704)
Date: Wednesday, March 10, 2010 1:49:22 PM

March 10, 2010

Ms. Mary Rupp

Secretary of the Board

National Credit Union Administration

1775 Duke Street

Alexandria, VA 22314-3428

Subject: Response to Proposed Rule for Corporate Credit Unions (12 CFR Part 704)

Dear Ms. Rupp:

St Francis Federal Credit Union appreciates the opportunity to comment on the proposed changes to NCUA Regulation 704. Our credit union, with \$6.4 million in assets, proudly provides financial value through our services to 2,100 members/owners. All small credit unions need our corporate system to continue to provide investment, settlement, and other services vital to our survival. We fully support regulations which allow corporates to add value and income to our credit union; however, we feel the proposed rule will make it impossible for corporates to provide this in the future. We have done cost analysis on having corporate services provided by banks and the Federal Reserve only to discover respective 80% and 228% expense increases. If our excessively restrictive proposed regulation destroys our corporate system then you will have destroyed the small and medium size credit unions which will cause the large credit unions to convert to mutual banks to avoid taxation. Then, there will no longer be a need for the National Credit Union Administration.

- Comment on the Extinguishment of Capital

The vast majority of CPA's consider the extinguishment of capital to be dishonest, unethical, unprofessional, and unfair. The recoveries of the write-downs should be returned pro-rata to the capital holders as opposed to being a gain in the capital of US Central. At a South Carolina natural person annual meeting in February of this year the president gave a very good power point presentation describing the reasons for the 2009 losses suffered by the credit union. The only question asked by a member at the end was, "Since these write-downs were made based on projections of future losses which will probably not fully materialize when can we expect a return of part of our capital write down?" The credit union president then had to explain that the NCUA was currently leaning toward "extinguishment of capital" and unless they changed direction there would be no return of the capital written down even if the projected losses never actually occur; these gains would become part of the retained earnings of US Central. The room erupted in grumbling members. The credit union members of America will never again trust the National Credit Union Administration if Extinguishment of Capital is made a final rule.

- Comment on the 30 day maximum borrowing term

Corporates need to be able to meet their own and their member credit unions liquidity needs. And, the corporates need to be able to borrow as an essential tool for managing interest rate risk. Therefore, there should be no borrowing term limit to enable corporates the resources to manage their balance sheets while providing needed liquidity to the natural person credit unions.

- Comment on the 2-Year Weighted Average Life portfolio limit

We small credit unions need for corporates to make money on their investments so they can provide us with income. It would be next to impossible for corporates to generate any earnings and stay within the 2-year target given all of the other restrictions within the proposed regulation. Corporates track member cash flows and have historical member balance data to manage liquidity of the asset side of the balance sheet. Because of the fluctuating nature of corporates' balance sheets they would have to manage a portfolio well below the 2-year WAL to ensure compliance; therefore, a 3-year WAL limit for the portfolio would allow some necessary flexibility to manage portfolios to a target range of 2-years. And, the calculation methodology should be based on 12-month average assets which would even out the seasonal cash flows.

- Comment on the Callability of Perpetual Contributed Capital (PCC)

The board of directors of a corporate that exceeds all minimum capital ratio requirements should maintain the authority to redeem/call PCC at its discretion without pre-approval from the NCUA. This capital belongs to the membership and the minimum capital requirements and PCA provisions protect the NCUSIF.

- Comment on Term certificate redemptions

Why is the NCUA determined to reduce the income of natural person credit unions? Corporates should be able to continue to share market gains related to the early redemptions of term certificates with its members as long as the corporate can or would experience a market gain on the sale of its offsetting assets. Why would the NCUA regulate that natural person credit unions be forced to take a market loss of an early redeemed certificate but only receive the book value if there is a gain?

- Comment on Single obligor limit for overnight/fed funds transactions

The low risk profile of the fed funds/overnight market should allow a higher single concentration limit for overnight transactions such as 100 to 200% of capital. Your current proposal of 25% of the recapitalization plan would force our corporate, First Carolina Corporate CU, to place our deposits into lower rated financial institutions (it would take about 40 different counterparties/institutions) for overnight investment – we do not want lower rated investments of this sort.

At this time please let us request that our regulator, the National Credit Union Administration, diligently seek sufficient regulation of the rating agencies who could have prevented the world financial crisis if they had rated securities/bonds correctly as they are charged to do. Until steps are in place to prevent the continued unmitigated greed (perhaps a single fee no matter what the rating) at the rating agencies no security/bond investments are safe for retirement funds, mutual funds, universities, endowments, corporates, etc. Please work with Congress and the Federal Reserve to rectify this gross oversight and prevent future occurrences.

In summary we do not want the world financial crisis of the last two years to be repeated; but, we recognize that the corporates were not the cause nor the sole industry to be affected by the greed of Wall Street. Therefore, corporate credit unions must be regulated in such ways as to maintain their abilities to provide value and income to natural person credit unions. The proposed regulation eliminates all risk a corporate could manage to provide products and services to its members at the same time the proposed regulation eliminates the possibility of a viable corporate credit union system. The proposed regulation needs substantial revisions and modifications to be able to provide value and income to credit unions and safeguard the viability of the corporate system.

As said in the beginning, all small credit unions need for our corporate system to continue to provide investment, settlement, and other services vital to our survival. Our directors intend to recapitalize First Carolina Corporate Credit Union If, and only if, regulation 704 will allow our corporate to remain viable and meet the income and service needs of our credit union. Please do not destroy the small and medium sized credit unions by destroying the corporate credit union system with regulation 704.

Sincerely

Gail Reeves, Director

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