

IDAHO CREDIT UNION LEAGUE
AND AFFILIATES

Filed via: Regcomments@ncua.gov

March 11, 2010

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

Re: NCUA's Proposed Changes to Part 704, Corporate Credit Unions

Dear Ms. Rupp:

On behalf of the Board of Directors of the Idaho Credit Union League and our member credit unions, I appreciate the opportunity to file comments on the National Credit Union Administration Board's proposed changes to Part 704, Corporate Credit Unions, which were published in the Federal Register on December 9, 2009.

We agree that something needs to be done to change the way corporates work in the future and much in the proposed changes to Part 704 serve that need. However, many of the changes attempt too much, are far too restrictive, and are unworkable in the real world. Instead of providing a framework for corporates to survive and prosper in future, the proposed regulation as currently contemplated will effectively destroy most, if not all, corporates, stifle competition, and turn natural person credit unions from the corporate system to its competitors.

The Proposed Rules Do Not Allow for a Viable Business Model for Corporate Credit Unions.

The expectations in the proposal for corporate success in the future are clearly based upon a flawed economic analysis. It is simply unrealistic to expect any institution to prudently focus its balance sheet on a single sector (student loans in the example set forth in the Preamble) and expect that sector to generate over half of net interest income. Compounding this flaw, the example overlooks the cost corporates face of raising additional capital and making adjustments for inflation. The new investment and ALM rules, especially those respecting the new NEV and average life mismatch tests, fail to take into account the differences between agency and other securities and so impose further impediments to financial viability. At the very least, the rule should be modified to allow corporates to treat agency securities differently from other investments in the ALM stress-test requirements.

When these things are combined with the proposed capital standards and transition periods it will be nearly impossible for any corporate to satisfy the requirements under the constraints imposed by the Proposed Rule. The Rule should be revised to create an environment that will ensure the success of the corporate system and not to destroy it as it does in its present form.

Part 704.2 – Definition of “Available to cover losses that exceed retained earnings.”

This definition is intended, in part, to codify NCUA’s mandate to extinguish natural-person credit union capital based upon estimated losses created by OTTI models with no ability for corporates to replenish capital to those credit unions if actual losses are less than projected. GAAP does not require this treatment and it is unconscionable that NCUA would include it in this Proposed Rule. The credit unions whose capital was taken should be reimbursed to the extent of OTTI reversals pro rata if, as is likely, market conditions improve. NCUA’s regulatory accounting treatment should be structured to support the credit unions that have paid for the mistakes of their corporates by following national accounting standards and not permanently depleting credit union capital based upon projections that will continually change. If there is any hope for credit unions coming together to recapitalize the corporate system, this definition must be changed.

Part 704.3(c) – Perpetual Contributed Capital

The Proposed Rule eliminates the current prohibition against a corporate credit union conditioning membership, services, or prices for services on a credit union’s ownership of member paid-in capital (renamed perpetual contributed capital (PCC)). This will result in natural-person credit unions being forced to invest at-risk capital deposits into a corporate that it depends upon for payment-related services. This will cause many natural-person credit unions, most of which are already reluctant to invest more capital in corporates, to take their business elsewhere. The effect will be destructive of the corporate system.

Part 704.8(c) – Penalty for Early Withdrawals

The requirement that a corporate that permits early certificate withdrawals must redeem at the lesser of book value plus accrued dividends or a value based on a market-based penalty is bound to put corporate certificates at a significant disadvantage compared to others in the marketplace and will cause a significant liquidity concern as credit unions seek other investment sources, such as Agency-issued debt. This section should be deleted and the rule left as is for certificate redemption.

Part 704.8(k) – Overall limit on business generated from individual credit unions

While it makes sense to limit the business any one credit union may have with a particular corporate, this provision is too restrictive as proposed. A more reasonable approach would be to allow corporates to offset borrowings against credit union deposits in calculating the 10% limit.

Part 704.19(a) – Disclosure of Executive and Director Compensation

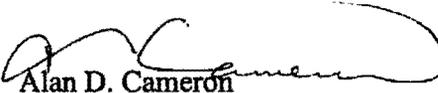
The term “senior executive officer” should be defined in this Part. As proposed, the Rule could be construed to include executive officers who appear to be senior in terms of title but are in fact mid-level managers. Publicizing the compensation of these employees could adversely affect a corporate’s efforts to hire and hold top talent. This Part should be revised to define “senior executive officer” as a person within the top five wage earners in the organization. The Proposed Rule should also be amended to require compensation disclosures only upon the request of members of the corporate and not to require corporates to publicize these disclosures to the media.

Part 704.20(e) – Permissible indemnification payments

Recent actions concerning corporate boards have already made it difficult to attract qualified persons to serve on those boards and if enacted, this Proposed Rule will do even more to dissuade knowledgeable people from serving. This provision is unreasonably restrictive, punitive, overly complicated, and practically unworkable. For instance, subsection (4) provides a process for a removed board to appoint independent counsel to opine that the circumstances qualify for indemnification, but does not clarify how that counsel will be paid or the requested indemnification authorized if the board has already been removed.

Thank you for this opportunity to comment upon this important Proposed Rule. The Proposed Rule announces sweeping changes that will have a profound effect on the credit union movement and could, if not amended from its current form, permanently harm that movement. Under the Proposed Rule the corporate of tomorrow will survive only if they shift risk from themselves to their natural person credit union members. Most of these members are not equipped to handle that risk. Changes of this magnitude justify and require an adequate opportunity for stakeholders to consider the ramifications of such change. I urge that the Board issue a further revised Proposed Rule for public comment following its consideration of the comments submitted on this proposal.

Sincerely,


Alan D. Cameron

President/CEO

Idaho Credit Union League