From: Carl E. Stewart
To: _Regulatory Comments
Cc: chrisc@ccul.org.
Subject: WPCCU responses to NCUA Proposed Amendments to Corporate Rule 704
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Importance: High

WPCCU responses to NCUA Proposed Amendments to Corporate Rule 704

Please review our responses to the proposed amendment to rule 704. Thank you.

Proposal Summary

The proposal contains amendments that would affect seven areas regarding the structure and operations of corporates. Three notable areas of potential concern for natural person credit unions (NPCUs) are:

NPCUs limited to membership in one corporate credit union (§701.5)

Under the proposal, natural person credit unions would be prohibited from maintaining membership in more than one corporate at any one time. This restriction is prospective (i.e., credit unions that are members of two or more corporates upon finalization of the rule do not have to relinquish memberships in any of those corporates). The proposal would also prohibit a natural person credit union from making any new investment—including a share or deposit account, loan, or capital investment—in a corporate of which the natural person credit union is not a member. According to NCUA, the proposed membership limitation is intended to prevent the unhealthy competition between corporates (which led to excessive risk-taking) that resulted from natural person credit union "rate shopping" among corporates.

Response: WPCCU is opposed to this restriction. We believe that regulated competition is healthy and ensures that corporates are accountable to their membership. Monopolies encourage inefficiency, price inertia, and growth in assets that possibly render the corporate "too big to fail". We desire a corporate system that allows natural person CUs to deposit or invest in any corporate. If there be reticence to limit concentration, perhaps a prohibition to invest more than 100% of Net worth could be imposed. "Rate shopping" occurs in our economy and this

proposal only sends the shoppers to none CU related investment options.

Membership Fees *(*§704.23)

In order to provide corporates with more options to grow retained earnings, the proposal adds a new section to the rule that permits corporates the option of charging their members, as a mandatory requirement of membership, reasonable one-time or periodic membership fees. These fees would need to be proportional to the member's asset size, and a member must be given at least six months notice of any new fees, or any material change to an existing fee. Corporates would have the discretion to reduce the amount of the fee for members that have contributed capital to the corporate. If the member fails to pay the fee within 60 days of being invoiced, the corporate would have the option to of terminating the membership.

Response: We foresee no material problems in allowing corporates to assess fees.

Equitable Distribution of Corporate Credit Union Stabilization Expenses (§704.21)

In an effort to put pressure on all users of corporate credit unions (e.g., non-Federally insured credit unions, FICUs, and system affiliates) to share in the expenses associated with the NCUA's stablization actions, the proposal provides that when NCUA assesses a Stabilization Fund premium on FICUs, NCUA will request existing non-FICU members and others such as leagues and system affiliates to make voluntary payments to the Stabilization Fund within 60 days. If a non-FICU fails to pay the full amount requested, the corporate must conduct a special meeting of its members to determine whether each member that failed to make the full payment should be expelled from the corporate. The amount requested would be the non-FICU's assets times 0.815 times the percentage of insured shares that NCUA assessed each FICU.

Response: We support this assessment to Non-FICU as they have benefited from the system but escape playing a financial role in embellishing the system in the wake of the debacle.

The remaining four areas covered in the proposal are:

The requirement that corporates maintain a record of all board of director votes, including how each director voted (§704.13).

The addition of certain audit, reporting, and audit committee practices taken from FDIC regulations and Sarbanes-Oxley (§704.15).

The requirement that corporates establish enterprise-wide risk management committees staffed with at least one independent risk management expert (§704.22).

The requirement that compensation received by certain highly compensated corporate credit union executives from a corporate CUSO be disclosed (§§ 704.11; 704.19).

Response: We support the above four proposals.

Water and Power Community Credit Union

Carl Stewart

President/CEO

carl.stewart@wpcu.org

Carl E. Stewart

President & CEO, CUDE

California Insurance Lic. #OA78084

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