

January 14, 2011

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

RE: 12 CFR Parts 701, 704, and 741, Proposed Rule

Dear Ms. Rupp:

First Carolina appreciates the opportunity to comment on the proposed changes to 12 CFR Parts 701, 704, and 741, Proposed Rule. First Carolina is a corporate credit union headquartered in Greensboro, NC and is owned primarily by credit unions located in North and South Carolina.

701.5 Membership Limited to One Corporate Credit Union

This section seeks to prevent unhealthy competition among corporates by requiring credit unions to make a decision to commit to membership in only one corporate at a time.

Given the extensive changes to NCUA Regulation Part 704 already enacted, the business model and potential risk exposures within the corporate credit union system will be substantially different going forward. Most corporates will limit balance sheet size and hold assets with far less potential credit risk. The corporate system was started to provide reliable services and value to the credit union system. Innovation and product development has varied among corporates and many corporates have individual product line competencies that vary from other corporates. To eliminate a credit union's ability to choose best of breed products from multiple corporate credit unions is a disservice to credit unions. Limiting a credit union to just one corporate ignores the fact that natural person credit unions may be best served by utilizing services from multiple providers of which other corporates should be an option. If the argument that competition between corporates played a role in the recent corporate credit crisis, it was not competition in the correspondent services arena. The primary basis of competition was in the term investment arena where greater risk, both credit & liquidity, were taken to pay above market rates. The corporates who focused on that strategy have now all been conserved. Capital restraints alone will reduce competition for credit union dollars in the future. Ability to join multiple corporates for correspondent or liquidity services will only drive more efficiency within the corporate system. It also seems quite punitive to credit unions and corporates to place this restriction on a corporate system currently in such a state of flux. The newly revised regulation already limits a credit union's capital in one corporate to a maximum of 2% of assets with a maximum aggregate capital exposure limit of 4% in all corporates. ***We recommend eliminating this restrictive change.***

704.11 Corporate Credit Union Service Organizations (CUSOs); 704.19 Disclosure of Executive and Director Compensation

The proposal seeks to clarify that for CUSOs in which a corporate has invested, the corporate must include compensation received from the CUSO in disclosures of compensation paid to the corporate's most highly compensated employees.

Increasing transparency of CUSO compensation actions appears to be a reasonable goal.

704.13 Board Responsibilities

The proposal requires that minutes of board meetings must identify the board members, by name, who voted for or against a proposal, as well as, any board members who were absent or otherwise failed to vote, and any board members who abstained from voting.

Recording of board member votes is clearly an appropriate part of the minutes. It seems more appropriate to simply require no votes and abstentions to be noted by individual director names. Most votes are often unanimous so if you have recorded which directors are at the meeting, listing them individually for each vote seems unnecessary unless there isn't unanimous support on a vote.

704.15 Audit and Reporting Requirements

This section proposes extensive, explicit, reporting requirements for corporates and for external auditors.

Essentially, corporate financial reporting will be similar to what is currently required for publicly traded companies. It is difficult to argue against more transparency in financial reporting although for most of the remaining corporates, the additional costs associated with the new reporting requirements will not result in additional risk factors being exposed to members. Rather than set reporting limits based on asset size, we would recommend the threshold for additional reporting be based on asset mix and investment authority limits (i.e. derivatives authorities, etc.).

704.21 Equitable Distribution of Corporate Credit Union Stabilization Expenses

The NCUA is proposing a mechanism to spread the cost of the corporate stabilization program to non-Federally insured members of corporates.

The proposed regulation would extend corporate stabilization expenses to non-federally insured members of a corporate. Currently for us, the only members impacted by this change would be our non-natural person credit union members – leagues and their affiliate organizations and credit union CUSOs. These organizations generally use primarily correspondent services and carry limited deposit balances. We would hate to see credit union owned entities be asked to seek these services outside the credit union system. While it may seem appropriate for all entities having corporate accounts to share the corporate stabilization costs, requesting “voluntary” payments with the result of non-payment being potential expulsion from a corporate’s membership does not seem appropriate or very voluntary. Would a newly formed CUSO who joins a corporate in the future be subject to the same “voluntary” payments and potential expulsion? While feedback we have received from some of our members has supported the idea of everyone sharing in the costs if they had been a corporate member, none have indicated they would vote to “expel” a member who did not make the voluntary contribution. We believe feedback from natural person credit unions on this issue is most appropriate for the agency to consider as they fund the leagues & affiliates, own the CUSOs, and would determine the final outcome of any membership vote.

704.22 Enterprise Risk Management

The NCUA is proposing a requirement of corporates to establish an enterprise risk management committee, which must include at least one independent risk management expert.

To a great extent, all corporates have established some form of an enterprise risk management program which includes the use of many outside experts related to IT, security, operational and financial audits and reviews. Our current Security Committee covers most of what is being proposed as responsibilities for the “enterprise risk management committee.” While we have no objection to the responsibilities set forth or the requirement for such a committee, we do object to the requirement that the committee have an “outside expert.” The NCUA’s Inspector General’s reports regarding the failures at US Central and WesCorp did not suggest to any degree that this proposal would have prevented the losses that were incurred. The Board and CEO are responsible for hiring personnel with appropriate expertise in the areas for which they are managing and/or for contracting with outside parties to address specific risks inherent to a corporate’s operation. Does NCUA view the role of this committee to oversee the corporate’s Asset-Liability Management Committee and/or Supervisory Committee roles? The predictable impact of this proposed regulation will be increased cost and management/governance complexity with little evidence of additional benefit. What would be the potential liability such an “outside expert” might face? Could the expert come from the same CPA firm that the corporate used for their internal or financial audits? Is this an operational risk management expert or a balance sheet risk management expert that NCUA is looking to be hired? Given the responsibilities and potential liabilities, how much would such an expert cost the corporate and what would be the additional benefit given the rather limited role (meeting time) despite far ranging responsibilities this position might hold. ***We recommend eliminating the requirement that the corporate hire an “outside expert” to serve on the enterprise risk management committee.***

704.23 Membership Fees

The NCUA is proposing to allow corporates the option of charging their members reasonable one-time or periodic membership fees.

We do not see the need for this specific item to be in the regulation. We are unaware of any current restrictions to a corporate being able to charge a periodic or annual membership fee. It seems that by adding this to the regulatory framework, NCUA is endorsing this practice as a means of building retained earnings. We certainly do not support any restrictions on assessing a membership fee, we just do not see the need to have this included as part of our regulatory guidelines.

Thank you for the opportunity to submit our thoughts on the additional proposed regulatory changes to NCUA Regulations, Part 701.5 and Part 704. If you have any questions, please don’t hesitate to contact me.

Respectfully submitted,



David W. Brehmer
President/CEO