

January 27, 2011

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

Re: Notice of Proposed Rulemaking for Part 704-Corporate Credit Unions

Dear Ms. Rupp:

On behalf of Credit Union of Southern California (CU SoCal), I appreciate the opportunity to comment on NCUA's proposal to amend its corporate credit union rule, contained in Part 704 of NCUA's Rules and Regulations. CU SoCal is a \$580 million credit union serving 41,000 members.

The proposed changes will affect seven areas regarding the structure and operations of corporate credit unions. However, below are our comments and recommendations on the three provisions that cause us the most concern.

1. Prohibition on natural person credit unions (NPCUs) from maintaining membership in more than one corporate at any one time (701.5)

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 corporate credit unions.

We do not support this proposed provision. NCUA's assessment of the perceived problem (i.e., "unhealthy competition") is not accurate. Prohibiting NPCUs from maintaining membership in more than one corporate at any one time defies capitalism and eliminates the benefits of competition such as keeping costs down, service levels up, and a need to innovate. "Protecting" corporates from healthy competition will force credit unions constrained in their choices to seek products and services from outside the corporate system. As a result, the corporate system will be weakened.

Furthermore, the concern of excessive risks being taken has been sufficiently addressed by investment, capital, and other rules already added to Part 704.

In addition, there are operational aspects that NCUA does not address in the proposal. This further strengthens our belief that this provision has not been carefully evaluated.

Recommendation: We believe NCUA should withdraw this proposed provision.

2. Pressuring all users of corporate credit unions (e.g., non-federally insured credit unions, federally insured credit unions (FICUs), and system affiliates) to share in the expense associated with the NCUA's stabilization actions (704.21)

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The proposal establishes procedures for 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 they fail to pay the full amount requested, the corporate must conduct a special meeting of its members to determine whether each of the members that failed to make the full payment should be expelled from the corporate. The amount requested is the non-FICU's assets times 0.815 times the percentage of insured shares that NCUA assessed each FICU.

We understand NCUA's concern regarding fairness that prompted with amendment. However, we believe this action is more inequitable and more costly for FICUs, will weaken the dual charter system. In addition, it will further delete the ability of the corporate to be competitive and drive more business from them making it even more difficult to survive. The additional expense to hold special meetings to expel those who do not pay the requested amount (which they do not have a statutory obligation to pay) will only be passed on to the members which will result in a double assessment for credit union members.

Recommendation: We believe NCUA should withdraw this proposed provision.

3. Permitting corporates the option of charging their members, as a mandatory requirement of membership, reasonable one-time or periodic membership fees (704.23)

These fees are intended to provide corporate with more options to grow retained earnings and would have to be proportional to the member's asset size. Members 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 who have contributed capital to the corporate. If the member fails to pay the fee, the corporate would have the option to terminate the membership.

Recommendations: We agree with this proposed amendment; however, suggest the following changes. Corporates should be allowed to use risk-based factors in determining their fees. In addition, we recommend that the six-month time frame for notice be shortened to 45-60 days. This will allow corporates to more accurately estimate actual results and needs for the implementation of a new fee.

In closing, I would like to thank the NCUA for the opportunity to comment on these proposed changes. We appreciate your thoughtful consideration of our views, and urge you to withdraw the proposed changes under 701.5 and 704.21, and to make what we believe to be reasonable recommended changes under 704.23.

Sincerely,



Richard T. Krusbe
Credit Union Ambassador
Credit Union of Southern California