



October 15, 2013

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

RE: 12 CFR Parts 703 and 721, Charitable Donation Accounts

Dear Mr. Poliquin:

Coastal Federal Credit Union (Coastal) appreciates the opportunity to submit comments on the National Credit Union Administration's notice of proposed rulemaking for Parts 703 and 721, Charitable Donation Accounts. Coastal is very active in supporting credit union foundations as well as important charitable organizations in our community.

Coastal strongly supports the creation of hybrid charitable investment vehicles, and commends NCUA's willingness to develop a regulatory framework to support this structure. In this low interest rate environment, all charitable organizations are seeking steady streams of funding for their impactful activities.

Coastal has a series of observations and recommendations regarding the proposal that it believes will balance the intent of credit unions to support charitable activities and the safety and soundness concerns that NCUA necessarily has in its role as regulator and deposit insurer.

Observation: The rule for CDA accounts should not be associated with other tools currently in use by the credit union movement to provide for charitable purposes that only use 703 qualifying investments. These solutions are differentiated as they strictly use 703 qualifying investments.

Until interest rates fell to such low levels, Coastal participated in the Community Investment Fund through investments in First Carolina Corporate. The nature of this mechanism leverages all components of the credit union system to benefit national and state credit union foundations for important financial capability work. Half of the earnings were sent to Coastal and half sent to state credit union foundations at our instruction. This activity should not be included or brought in under the definition of a CDA, as they are simply administrative activities.

Recommendation: Clearly separate out those programs defined as administrative in nature and restricted to 703 qualifying investments from the definition of a CDA.

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
Page Two

Section 721.3(b)(2)(i) -- Charitable Donation Accounts (CDAs) maximum aggregate funding

Observation: The proposal calls for a maximum aggregate funding of 3% of net worth at all times. As the regulation contemplates a total return concept and as it also provides for up to a five (5) year period for distribution, the CDA may actually grow above the 3% over time. That would certainly be the desired goal of all involved. In years in which the investments generate sizeable gains, a credit union may be forced to reduce its holdings in its CDA(s) prematurely if the 3% net worth cap has been exceeded. As growth is anticipated, and a potential time frame of five (5) years is present between distributions, the 3% limitation is not an effective tool and actually will have unintended negative outcomes for a successful investor.

Recommendation: Coastal suggests specifying the 3% limitation be measured at the time of purchase or placement of the investment in the CDA and at the time of any subsequent additional investment.

Section 721.3(b)(2)(iii) – Regulatory oversight

Observation: The proposed rule allows credit unions to make their own investment decisions; however, the proposal provides that if another entity is managing the account, that entity must be a Registered Investment Advisor with the Securities and Exchange Commission (SEC).

Because the Office of Comptroller of Currency (OCC) supervises national banks, federal savings banks or federal thrifts engaged in trust and investment activities, these institutions have been exempted by Congress from registration as a registered investment advisor with the SEC, with certain exceptions.

Meeting SEC application and registration requirements as well as examination responsibilities will be costly, particularly for such institutions that are not already registered.

Coastal believes it is unlikely that an institution already regulated by the OCC will undertake the actions and expenses necessary to receive SEC registration in order to be eligible to manage CDAs for credit unions. This requirement for SEC registration will likely limit credit union options and likely minimize the utility of CDAs, thereby defeating the intent of providing another mechanism for credit unions to make charitable donations.

Recommendation: Coastal strongly urges NCUA to eliminate the unnecessary requirement that outside entities that manage CDAs for federal credit unions be registered with the SEC if they are regulated by the OCC.

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
Page Three

Section 721.3(b)(2)(vii)(d) – Definition of “total return”

Observation: Creating and managing a trust can be expensive. The trust may be professionally managed and require legal documents or agreements to be developed, which impacts the total return for the credit union. We do not see where the rule has addressed the recoupment of certain costs by the credit union in creating or maintaining the CDA.

Recommendation: The “total return” definition should be modified to be “net” of any investment management and administrative fees.

Thank you for the opportunity to comment on the proposal. If you have any questions about our letter, please do not hesitate to give me a call at (919) 420-8182.

Sincerely,

A handwritten signature in purple ink that reads "CHUCK PURVIS".

Chuck Purvis
President and CEO

cc: The Honorable Debbie Matz, Chairman, NCUA
The Honorable Rick Metsger, Board Member, NCUA
The Honorable Michael E. Fryzel, Board Member, NCUA