



Credit Union National Association

cuna.org

601 Pennsylvania Ave., NW | South Building, Suite 600 | Washington, DC 20004-2601 | PHONE: 202-638-5777 | FAX: 202-638-7734

October 6, 2011

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration Board
1775 Duke Street
Alexandria, VA 22314-3486

Re: RIN 3133-AD95, Proposed Technical Amendments to Corporate
Credit Union Rule, Part 704

Dear Ms. Rupp:

This comment letter represents the views of the Credit Union National Association (CUNA) regarding the National Credit Union Administration Board's (NCUA's) proposed technical amendments to its corporate credit union rule, Part 704. By way of background, CUNA is the largest credit union advocacy organization in this country, representing approximately 90% of our nation's 7,300 state and federal credit unions, which serve about 92 million members.

CUNA generally supports these technical amendments and clarifications to incorporate previous changes to the corporate credit union rule. Overall, we support a more consistent regulation and encourage further efforts to reduce regulatory burdens on corporate credit unions.

The proposed revision that weighted average life (WAL) violations would no longer be subject to capital category reclassification for purposes of Prompt Correction Action under § 704.8 is appropriate. The proposed revision would reduce regulatory burden, while other reporting and action requirements would continue to apply to persistent WAL violations.

Also, we agree with the proposed revised definition of "net assets" in § 704.2 that excludes Central Liquidity Facility (CLF) stock subscriptions. We agree with the agency that this exclusion is appropriate because the credit risk of carrying CLF stock subscriptions is minimal and should encourage the use of the CLF as a liquidity provider, which will benefit corporate and natural person credit unions.

However, NCUA should not incorporate into § 704.6 its proposed rule on credit rating references issued in February 2011 since the rule has not yet been adopted. This proposal would create a new § 704.6(h) to incorporate the proposed credit rating language and combine two separate sections on



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concentration limit and credit rating requirements that currently trigger § 704.10 consequences for investments that do not meet requirements under Part 704. We believe it is more appropriate to wait to make such changes once the credit rating references proposal has been approved.

Regarding the table in § 704.18 for corporates to calculate the maximum deductible allowed for fidelity bonds, “perpetual contributed capital” should replace “paid-in capital.” However, NCUA should not replace “sum of its retained earnings and paid-in capital” with “core capital.” While the table already requires the calculation of the “core capital ratio,” the agency has not provided adequate justification to add two additional components that are part of “core capital.” The definition of “core capital” should remain the sum of: (1) retained earnings; (2) perpetual contributed capital; (3) retained earnings of any acquired credit union; and (4) minority interests.

Finally, we agree with several other technical corrections to provide a more consistent regulation and incorporate previous changes. The proposal would: (1) remove the daily average net risk-weighted assets (DANRA) definition from § 704.2; (2) include cash in the WAL calculation by replacing “loan and investment portfolio” with “financial assets, consisting of cash, investments, and loans” under §§ 704.8(f) and (g), while retaining the current rule’s exclusion of derivative contracts and equity investments; (3) correct the section heading of § 704.19 by removing the reference to “director” under the executive compensation requirements; and (4) replace the word “before” with “on and after” regarding the effective date on Model Form D in Appendix A, which should be used on or after October 20, 2011.

Thank you for the opportunity to comment on this proposed rule. If you have any questions concerning our letter, please feel free to contact Senior Vice President and Deputy General Counsel Mary Dunn, Assistant General Counsel Luke Martone, or me at (202) 508-6733.

Sincerely,

A handwritten signature in blue ink that reads "Dennis Tsang". The signature is fluid and cursive, with the first name "Dennis" and last name "Tsang" clearly legible.

Dennis Tsang
CUNA Regulatory Counsel