



March 9, 2010

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

Dear Ms. Rupp:

On behalf of the New Jersey Credit Union League, the statewide trade association for New Jersey's 212 credit unions, I provide you the following comments on NCUA's Proposed Rule on Part 704, regulating corporate credit unions. These comments in part reflect the results of a statewide survey of New Jersey credit unions on the proposed regulation.

Clearly, the future of the corporate credit union system is at a crossroads. The corporate credit union system has been a stellar provider of settlement, payment systems, cash management/liquidity and investments for natural person credit unions for decades. Over the last two years, since the creation of the Corporate Credit Union Stabilization Fund, our credit unions have become very concerned about not only the costs they incurred to ensure the corporate credit union system remained strong, but about the future of the system and NCUA's approach.

There is concern that not enough has been done to mitigate the costs incurred by credit unions. For example, unlike the FDIC, where the equity ratio has fallen to well under 1% and it is under a capital restoration plan, NCUA has steadfastly moved to keep the National Credit Union Share Insurance Fund at 1.3%. We believe in these difficult times NCUA should consider allowing more flexibility with the equity ratio so credit unions can continue to provide quality products and services to their members.

Secondly, NCUA has not provided any options for the possibility of membership capital lost in corporate credit unions being recovered by the membership over time. This is a critical issue because without a mechanism for potential future capital restoration, many credit unions are concerned about providing new capital to fund the corporate credit union system going forward.

Credit unions are also deeply concerned about the legacy assets weighing on the corporate system. To date, much of the capital share losses at corporates and the assessments to the NCUSIF were a result of Other Than Temporary Impaired assets, rather than real losses. We urge NCUA to find relief for credit unions by looking beyond GAAP and finding creative solutions to minimize the effect of OTTI on credit unions.

NCUA has also not provided enough detail on what percentage of the NCUSIF assessments are being used to fund corporate losses versus natural person losses. More detail here could help credit unions understand the scope of the assessments and more properly assess the health of the corporate credit union system.

Legacy Assets

While NCUA has said publicly on a number of occasions that it is working with Treasury on a plan to segregate the legacy assets from the credit union system going forward, no details have been shared. This is concerning because legacy assets represent the biggest challenge to the corporate system going forward if the current application of OTTI is kept in place. Given the impact of OTTI on corporates and ultimately natural person credit unions, we believe NCUA should be more transparent in their approach to the legacy asset issue so as to invite comment from the credit union system. Credit unions are concerned that NCUA will strike a deal with Treasury that will be unable to be modified based on system feedback.

Need for Corporate Network

New Jersey is home to more than 150 credit unions under \$25 million in assets. These credit unions in particular rely heavily on the corporate system for payments, settlement, cash management/liquidity and investments. Many of these credit unions are concerned that they will need to seek out alternatives to the corporate network based on the restrictive nature of the proposed reg. Unfortunately, many of the alternatives will cost more and create an operational burden. Corporates provide a hands-on approach and offer the member care that these credit unions have relied upon.

Core Areas of Proposed Regulation

The following are the core areas of Proposed 704 that our membership has responded to:

Two-Year Weighted Average Life

Limiting the weighted average life of a corporate's assets to two years will hinder a corporate's ability to deliver value. NCUA should consider that corporates operate mostly with 5-year or less average assets, and limiting to two years will result in lower returns that can be passed on to natural person credit unions.

Limit on Certificate Redemption

Preventing redemption of corporate certificates at a premium will result in corporate certificates being less liquid than other certificates and will make them less competitive than other providers. This will further reduce corporates' ability to deliver a competitive product.

Investment Concentration Limits

The proposed investment concentration limit of 25% of capital or \$5 million in any single obligor is too restrictive and may result in more risk as corporates look to diversify investment sectors. The concentration limit should be raised or issued as a "guideline" as NCUA does with other regulations, rather than a requirement.

Credit Spread Test

In the proposed credit spread test, NCUA does not consider core deposit assumptions on overnight accounts. NCUA should provide credit for core deposits in the credit shock test to accurately assess risk.

New Capital Requirements/Retained Earnings Milestones

While credit unions favor deeper capital support of the corporate credit union system, they are concerned that the time constraints (100 basis points after six years and 200 basis points after 10 years) on corporates to reach these capital standards may be too restrictive given the recent loss in member capital shares and NCUSIF assessments credit unions have endured. The capital standards, while offering more long-term stability, should have looser time requirements. Credit unions strongly believe corporates may not be able to meet them, particularly the 4% leverage ratio, because of an unwillingness to invest new capital in the system.

"Pay to Play" Model

New Jersey credit unions believe there should be an element of "pay to play" in the new corporate system. This would require credit unions that want to do business with a corporate to put up capital. However, a majority of respondents to our survey believe in lieu of "pay to play", credit unions should be able to participate in the corporate network by paying higher fees than those that have contributed capital.

Further, our credit unions are divided on whether credit unions should be able to capitalize corporates based on services used. When surveyed on agreeing with the following statement: "Credit unions should capitalize corporates based on services used" respondents were evenly split.

How to Deal With Legacy Assets

Credit unions feel strongly that they should be given "rights to future earnings on corporates' legacy assets." In addition, they believe NCUA should consider changing its interpretation of accounting rules that corporates must impair assets based upon future loss estimates, yet cannot apply earnings directly to capital accounts.

Governance

The proposed governance changes concern credit unions because they believe these changes will eventually trickle down to natural person credit unions.

- Credit unions strongly agreed that all corporate board members should be from natural person CU members of the corporate and that corporate directors should not be able to concurrently serve on multiple corporate boards.
- 6-year term limits are too restrictive. New Jersey credit unions favor a range of 9-12 years.
- The requirement limiting service to CFO, CEO and COO may be eliminating other qualified candidates.
- Finally, credit unions believe the proposed regulation's prevention of director indemnity in some cases would greatly limit the pool of qualified directors. With great personal risk, corporates would be hard pressed to find a large candidate pool.

I appreciate the opportunity to comment and commend NCUA's town-hall approach to the proposed regulation. Never before has NCUA shown such an open approach to working with the system on a regulation of this magnitude. We urge NCUA to continue to embrace an approach that solicits feedback from the system given the impact this regulation will have on the future of the credit union system.

Sincerely,

Paul Gentile
President/CEO
New Jersey Credit Union League