# Proposed Regulation 12, CFR Part 704

## WHY THE NEW REGULATION MATTERS TO YOUR CREDIT UNION

***Overall:***
Some sections of the proposed rule are too restrictive, and will inhibit the ability of corporates to perform the functions for which they were created, supporting member credit unions. Members will have to pay higher fees and earn less on deposits and investments. Regulations regarding CUSOs, as proposed, could leave members without services as all CUSOs must be re-approved by NCUA.

If the proposed regulation is changed credit unions could get some depleted capital back. The Regulation, as proposed actually diminishes a corporate's ability to manage risk. It also limits the power of board members to determine the structure, direction and future of the corporate they own.

As written it restricts corporates to the point that they are uncompetitive in the market, and leaves credit unions with no choice but to use non-movement providers where they have no input or control as owners. Forcing credit unions to move outside the movement to find investments or service providers will further expose credit unions to the very risks the NCUA is trying to eliminate within the corporate network.

**The proposed regulation will have a negative impact on member credit unions including:**

- Fewer competitive investing options
- Lower yields on corporate deposits
- Limited long- and short-term liquidity options
- Fewer credit union-owned, competitive service solutions
- Reg. prohibits current practice of redeeming outstanding certificates at a market rate, even if it is at a premium dollar price
- Possible interruption or suspension of service from Corporate CUSOs since all, even existing, must be re-approved by NCUA
- Short board term limit of 6 years will weaken governance, limit experience and effectiveness

**Some changes to the proposed regulation that, if made, would benefit credit unions:**

- Revisit & revise A/L risk management constraints to allow corporates to earn more
- Legally isolate new member-contributed capital from potential future impairment losses (i.e., OTTI) of legacy assets
- Allow corporates to maintain a retained earnings deficit
- And/or allow depleted capital to be restored if projected losses ultimately overstate actual losses.
- Extend time limits for meeting capital and leverage ratio requirements
- Retain the current rule for certificate redemptions requiring corporates to assess a market-based penalty sufficient to cover the estimated replacement cost of the certificate redeemed
- Include the same list of permissible CUSOs in both Part 704 and 712 and allow a longer phase in period
- Allow a 12 year term limit for Board members

**Deadline: Must be received by March 9, 2010**

**Send letters to:**

**Mary Rupp**
**Secretary of the Board**
**National Credit Union Administration**
**1775 Duke Street**
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