Proposed Regulation 12, CFR Part 704
Problems and Solutions

The proposed regulation is overly restrictive, not allowing for a viable corporate business model.

- The proposed regulation should be amended to allow for corporate credit unions to make sufficient income from the balance sheet to grow and invest in innovation for the benefit of all its member credit unions, while exercising an acceptable level of credit and interest rate risk.

The proposed regulation results in key products becoming unattractive and/or infeasible. Examples:

- <u>Penalty for early withdrawals on corporate certificates</u>
  - It is our recommendation that this proposal be removed.
- <u>Weighted average asset life</u>
  - Limitations placed on asset maturities or average life limitations may severely impact a credit unions ability to obtain term liquidity needed.
- <u>Concentration limits</u>
  - Corporates will be severely challenged to invest short-term liquidity at reasonable rates.

The proposed regulation prohibits replenishment of capital to member credit unions.

- Corporates should be allowed to replenish capital back to existing capital holders if actual losses are less than projected. GAAP does not require the treatment being applied by the NCUA.

The proposed regulation harmfully restricts how credit unions cooperate to address common challenges and opportunities.

- The proposed rule severely limits those activities a corporate CUSO may engage in, and we believe this unnecessarily stifles how the credit union movement cooperates to address common challenges and opportunities.
  - Include the same list of permissible CUSOs in both part 704 and 712 and allow a longer phase in period.

The proposed regulation prohibits the current practice of redeeming outstanding certificates at a market rate, even if it is at a premium dollar price.

- 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.

The proposed regulation grants such extraordinary powers and discretion to the regulator that full compliance with the written regulation is not necessarily enough to be considered in compliance by the regulator.

- We believe that the flexibility of the prior rule should be maintained requiring corporate to submit a capital plan and requiring NCUA to submit a capital directive. We believe that the circumstances of each specific instance should guide the contents of the plans and any corresponding regulatory actions.

The proposed regulation makes it infeasible for a corporate to attract and retain qualified volunteers.

- The rule limits board terms to 6 years. We believe this will weaken governance. It takes time for new board members to learn how a corporate operates.
  - Allow a 12 year limit for board members.

<u>Deadline: Must be received by March 9, 2010</u>

Send letters to: **Mary Rupp**
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