



February 13, 2009

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

Dear Ms. Rupp:

Anheuser-Busch Employees Credit Union is pleased to have the opportunity to comment on the Advanced Notice of Proposed Rulemaking and request for comment (ANPR) to 12 CFR Part 704, Corporate Credit Unions.

We firmly believe that the existence of the network of corporate credit unions is the result of over pricing and “gouging” by commercial banks when they were the only alternative for natural person credit unions. Since the corporate credit unions were created, the market place has become even more competitive. And, it follows that if corporate CUs were to disappear, commercial banks, our direct competitors, would again price excessively for the “correspondent banking” services natural person CUs require. All but the largest banks rely on a “banker’s bank”. If natural person CUs are to survive, they must have the same alternatives provided by an organization designed with the same cooperative, not for profit mission.

We hope that it is agreed that no amount of regulation can prevent the type of “perfect storm” that began in the world economy in 2007 and is still building steam in spite of trillions of dollars used to plug the dikes. Any attempt to build a regulatory wall high enough to prevent a recurrence will be doomed to failure. If we can’t build a wall high enough for the next unknown, we should use the current experience to prepare a better response mechanism for the future. Secondly, if an attempt is made to prevent a recurrence of such a severe economic collapse, the regulated organization(s) will be so constrained they won’t be competitive.

Listed in order of the NCUA ANPR, are our comments for which we feel competent to render an opinion:

1. Structure: eliminate two tiered, wholesale, retail system? Is wholesale needed? If maintain two levels, should powers and authorities be different?

A single central corporate credit union with multiple regional branch locations makes the most sense. The liquidation of the existing “retail corporate” tier into the surviving organization should not be mandatory. Any retail corporate and its natural person credit union members should be allowed to continue to operate separately. They would be required to raise the necessary capital and would be regulated in the same fashion as the “new Corporate Credit Union”.

The recapitalization of the “new Corporate Credit Union” (U.S. Central Credit Union) should not be mandatory for all natural person credit unions. The support shown by natural person credit unions during the process should finally answer the question; “is the corporate network necessary?” At the same time a plan for the orderly liquidation of the retail corporate credit unions that exist today must include a return of the existing Membership Share and Paid in Capital balances to the natural person credit union member/owners. These funds would then become the source for the necessary investment in the “new Corporate”. In the case of a “pass-through corporate” this process could be achieved fairly simply and painlessly for the natural person credit unions. In the case of retail corporate credit unions, which has utilized expanded investment authority this process may be more complicated. Assets would need to be valued and transferred to the books of the “new Corporate” before the liquidation could be finalized. As a result, the process can not be accomplished in a short period of time and the plan should expect to be completed over a period of several years.

2. Payment system: isolate from other services such as investments, lending to reduce risk.

We do not believe that separating the payment system functions and investment & liquidity functions of the corporate network would produce viable entities. Payment and other non balance sheet services are extremely important to natural person credit unions, but the price they would have to pay to a mono-line corporate that operated without loan and deposit spreads would be prohibitive. The result would be the same as if corporate credit unions ceased to exist: commercial banks would control the market. Larger natural person credit unions, because of their size, have sufficient resources and could adequately replace the financial services currently provided by the Corporate Network, but the overwhelming majority of credit unions need a Corporate for these essential services and advice.

3. Liquidity function: should liquidity be considered a core function of corporates. Should cash flow duration limits be added to Part 704, Investments?

Yes, liquidity is a core function of any financial intermediary. However, that doesn't change the fact that, in spite of the best planning in the world, liquidity can't be 100% assured. We strongly encourage the NCUA to work on a holistic solution that includes the high level recovery of the system in the future on par with the banking system, but not to micro regulate to the extent that “liquidity at all costs” becomes cash on hand and investments with a duration of 90 days.

4. Investment Authority: should expanded authority continue to exist? If so, should capital requirements be higher, should authorities be narrowed? Should permissible investments be limited to only those allowed by natural person CUs? Should specific investments that caused a problem in most recent economic failure be prohibited, such as CDOs, Alt-A asset backed or sub-prime mortgages.

If the “new corporate credit union” is to function adequately to be the “bankers’ bank” for the CU system, it must have as much investment latitude as the largest commercial banks or “bankers’ banks” in the country. It certainly isn’t possible for them to add value if all they can invest in is the same limited investment list available to natural person credit unions. This, of course, concentrates significant risk at the top of the CU system. Accordingly, management and regulatory oversight of the “new corporate” will need to be absolutely the most capable, skilled, and experienced people available. Pay scales for all involved will need to reflect the capability sought at both the corporate CU and the corporate field examination staff. The operation will need to be more fluid, we do not believe you can achieve desired results by writing enough “do’s and don’ts” with security by security specific regulation. The investment process should be structured with separate lines of accountability: investment management, credit risk management, liquidity risk management, interest rate and capital risk management. These responsibilities need to be separate reporting lines, but “talking to one another”, not operating in silos.

5. Capital: bring more in line with banks regulated by FDIC, OCC. Such as applying risk weighted asset classification, or “tier one core capital”. Can core capital be created from undivided earnings only?

We believe that because the “new corporate CU” needs investment authority to function like a large commercial bank, it should operate under a risk weighted capital structure similar to the institutions in that industry. Therefore, it must have more capital than has been the case in the past and it will need to have access to secondary capital sources. Accumulation of undivided earnings in this low margin wholesale organization would never be an adequate sole source of capital. In our opinion, the CLF, Federal Reserve, or some component of the US Treasury, should be a funding source of last resort.

6. What time frame should be allowed to meet the new requirements?

Assets of existing retail corporate credit unions would need to be valued and transferred to the books of the “new Corporate”, capital would need to be built to minimum levels, highly skilled staff would need to be hired and functioning. As a result, the process can not be accomplished in a short period of time. We don’t have a definite recommendation on how long it will take, but expect it to require a period of several years.

7. NRSOs: they seem to be very subjective, can their ratings be useful? Should more than one be required?

The present economic morass proves that NRSOs need to be better controlled if they are to have any value to investors and market participants in the future, but that is an outcome beyond the scope of this rulemaking. We suggest that very little value should be placed on the work of these organizations in regards to valuation of investments or corporate credit unions. The evaluative methodology used by NRSOs, by definition, can not lead to a reasonable valuation of a non-profit corporate credit union. The fact that several of them placed the corporate credit union system under special watch because of the NCUA Board action of January 28 proves they don't "get it".

8. Credit risk: should the NCUA require independent evaluations and tests for spread and liquidity?

Yes. The NCUA needs to have highly qualified third party sources that understand the operation and investment objective and the true ability to "hold to maturity" of a corporate credit union. Third party investment reviews should be frequent and include credit risk, liquidity risk, interest rate and capital risk. The problem, however, will be to find a firm willing to employ a reasonable approach without taking the draconian view prompted by fear of responsibility and liability for rendering an opinion.

9. Governance: Should there be minimum standards of experience and independence. Term limits, compensation? Is it practical to require that a minimum number of directors have no CU association at any level?

Yes, the management team and Board of Directors of corporate CUs should be required to possess a high level of proven expertise and experience necessary to perform their responsibilities. As stated earlier, compensation needs to be sufficient to assure the best talent available is employed, in our opinion that includes a well paid board. The board needs to be kept to an appropriate, workable minimum. This is not a board that should have "political" appointments or a representative from each state. Terms should be limited and liability should be known and enforced. Hopefully it would not be difficult to find talent that is a member of a credit union. While being a credit union member needn't be a criterion, most should be and each board member needs to understand and appreciate the mission and purpose of natural person credit unions. Board members should not be on the board of retail corporate credit unions or banks or be an employee of a trade organization representing credit unions or banks.

Sincerely,

J. David Osborn
CEO