SAFE CREDIT UNION

February 24, 2009

Ms. Amy Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

RE: 12 CFR Part 704 Corporate Credit Unions

Dear Ms. Rupp,

I am writing in response to a request for comments regarding proposed rules for corporate credit unions. I have served on the Board of Western Corporate Federal Credit Union (WesCorp) and was involved in the discussions that lead to the drafting of NCUA regulation 704.

I would suggest the following changes to the corporate credit union system.

The three tier system makes no sense. It dilutes accountability, it increases costs, it sustains smaller corporate credit unions that are inefficient and it reduces the influence of natural person credit unions in the governance of the overall corporate system. I would propose that we eliminate one layer of the system—US Central. US Central and the corporate credit unions that have most of their assets in US Central are essentially redundant. Each takes a cut of the income; each duplicates overhead and administration and only one is directly accountable to the ultimate owner, the natural person credit union. The role of US Central can be replaced by greater cooperation between corporates.

2. Accountability is a big problem in the corporate credit union system. US Central's Board continued its association with CUNA, ACULE and the Kansas League long after the other corporate credit unions were told to sever their trade association relationships. Each of those trade organizations has had a Board seat. The rest of the US Central Board was made up of the CEOs of mainly smaller corporate credit unions. In my view the US Central Board is not accountable to the true owners of the corporate system, the natural person credit unions. The consequences of that are clear today. A very important part of any reform of the corporate system has to be accountability to the natural person credit unions. The NCUA states that natural person credit unions own their corporate credit union. That is not true. Natural person credit unions are like credit union members. They only have an ownership interest in liquidation. There is no equity ownership. Natural person credit unions think of their corporate just like members think of their natural person credit union—as depositors. Natural person credit unions would pay much more attention to the performance of their corporate credit union if they owned the corporate the same way they own a CUSO. Most natural person credit unions have no idea of the corporate credit union's performance other than the rates they earn on deposits. We need

owners who have capital at risk. I would advocate equity ownership of the corporate credit unions and election by stockholders of the Board of each corporate.

3. The corporate credit union system is inefficient. The 28 corporate credit unions and US Central have a huge amount of overhead that is paid for by the natural person credit union members. Just looking at the asset size of some of the corporate credit union's tells you that they are too small to be efficient. The relatively small size of many of the corporate credit unions not only means they are inefficient it also means they lack the resources and infrastructure to assure safety and soundness.
4. I do not agree with those who recommend dismantling the corporate system. The only clear alternative for similar services is the Federal Home Loan Bank System (FHLB). The FHLB is also under great strain and has its own problem with insufficient capital and unrealized losses on investments. More importantly the FHLB has a mission to support home lending. Credit Unions need a corporate credit union system that will support consumer lending of all types. We need a system that will securitize loans that we can't hold in our portfolio and to provide liquidity when we need it. The corporate credit union system is an important part of our payment system and could do even more if it was efficient, coordinated and well managed. I would propose that we model the new corporate system after the FHLB as follows:
    a. I would recommend that we have regional corporate credit unions serving five or six regions. The corporate credit unions could mirror the NCUA regions. The efficiency of the corporate system could be improved if certain key functions could be centralized and shared. A model similar to the "ACE Hardware Cooperative" would be beneficial. The corporates all could share a payment systems network, investment management, data processing, securitization of credit union loans and perhaps marketing.
    b. Each corporate credit union would be capitalized with stock sold to its owner credit unions. Credit Unions would be asked to capitalize the corporate in proportion to their asset size.
    c. The natural person credit unions would elect the Board of Directors. Voting for the Board would be proportional to shares owned. We have to make Boards accountable. Accountability is closely linked to how the Boards are elected and by who votes in elections. Share holders who have an ownership interest will pay more attention than members who have no vested ownership interest.
    d. The system would be able to sell bonds like those sold by the FHLB. The bonds would provide liquidity to support consumer lending by credit unions. The bonds would have the full faith and credit of the U.S. Treasury.
    e. US Central could become one of the regional corporate credit unions. But the system would only have two tiers—the regional corporate credit unions and the natural person credit union members.
    f. The business of the corporate credit unions would be to provide payment systems; liquidity; securitization; ALM services; investments; and other banking services necessary to support natural person credit unions. If the corporate credit unions could issue bonds they could be a competitive source of borrowed funds—a service that is now provided more often by the Federal Home Loan Banks.

The issue of corporate credit union capitalization is a significant part of any reform. We must have adequate levels of capital. The corporate credit unions should be capitalized by a combination of retained earnings and equity capital from natural person credit unions. The natural person credit unions have to own the system. Equity ownership will assure that natural person credit unions pay more attention to the governance of corporate credit unions. Capital in a corporate credit union should be based on the risk level of the balance sheet. Risk based capital rules should be established.

The current business model of the corporate credit unions does not seem viable. The business of taking deposits and investing that money produces very little income due to very narrow margins. The corporate credit union's have established other business lines to generate other income. These other business lines include business lending CUSOs, mortgage loan CUSOs, certificate of deposit brokerages and item processing (to name just a few examples). Unless a corporate credit union has a large asset base and very high efficiency there is too much reliance on these other sources of income. I am concerned that these other lines of business introduce too much risk and divert the attention of management from the core business of investment management. NCUA should consider whether a corporate credit union has adequate controls over all business lines. A business model that includes more loans to natural person credit unions would reduce the dependence on other lines of business or reduce the dependence on investment income. Corporate credit unions do not have a very large loan portfolio. They cannot compete with the Federal Home Loan Bank and provide loans at a competitive price. If corporate credit unions could raise funds in the same manner as the FHLB using the full faith and credit of the US Treasury then the corporate credit union business model would be more viable.

I believe that the investment authority for most corporate credit unions is reasonable and adequate. Only a few of the corporate credit unions have expanded authorities. Most of the corporate credit unions are pass throughs and rely on US Central for their investment management. I don't see any evidence that the current crisis could have been prevented by having more or stronger investment regulations. NCUA should reconsider whether there should be limits on the use of leverage. A number of the corporates have used borrowed money to inflate assets to drive additional income. The result has been a greater exposure to credit risk and higher losses.

The bigger issue with regard to investments and credit risk is that the Federal government oversight of investments banks, rating agencies, FNMA and FHLMC, and the large money center banks all failed. The corporate credit union system for the most part invested in assets with AAA ratings that later performed like subprime assets. The securities that were sold with AAA ratings were misrepresented due to the complete and total failure of the entire system of securities regulation. Many of these securitized assets were in fact sub prime. We can blame Congress and every level of financial regulation in the country for that. CPA firms, rating agencies, examiners, securities management and Congress all had incentives to ignore problems and to bless gross mismanagement with their seal of approval. There is plenty of blame for those in the corporate system but there is also a valid point to be made that they were the victims of a broken system that turned junk assets into AAA securities.

NCUA should look at fair value accounting. The corporate credit unions are largely insolvent based on fair value accounting. Many of the natural person credit unions heaped scorn on the corporate credit unions for their huge unrealized losses. Corporate credit unions have most of their assets in investments that have to be marked to market. If natural person credit unions had to mark their loans to market I would bet that the natural person credit unions would also have big unrealized losses. NCUA should not abandon GAAP nor should the FASB abandon mark to market accounting. But let's have the entire balance sheet marked to market and let's make sure our methods for market value accounting make sense. If mark to market accounting makes sense then it makes sense for all credit unions and it makes sense for the entire balance sheet.

NCUA should also examine its role in the corporate credit union system. After the Capcorp debacle NCUA left many problems unanswered. The Board make up of US Central maintained a vestige of trade association control of the largest corporate even when such control was deemed a problem in other corporate credit unions. That has proved to be a mistake. NCUA allowed a lazier faire process of consolidation to occur. The corporate system needed consolidation to eliminate weak players that created incentives for risk taking and mismanagement. The level of expertise at NCUA never seemed to match the level of risk in the corporate system. NCUA had some expertise but for the most part the corporate examination team did not have the level of expertise or the resources needed to oversee the corporate credit unions. I applaud the use of PIMCO. Unfortunately that kind of third party expertise should have been in place years ago. NCUA knew the complexity of corporate investments but was slow to bring in the expertise to appraise the risk and evaluate the corporate credit union's mitigation of those risks. The very high levels of borrowed funds at some corporates relative to capital were not addressed until the CUSIP program was introduced. NCUA must assign adequate resources to oversee the corporate credit union system. It is extraordinary that within a matter of days, without any warning, the corporate system could impair the insurance fund to the extent that a 50% write down is required. Obviously there are extraordinary times but NCUA must have the resources and the competence to take prompt corrective action. The US Central impairment clearly demonstrates that NCUA's oversight needs improvement.

Sincerely,

Henry W. Wirz
President/CEO