VISIONS
FEDERAL CREDIT UNION
Better Rates • Lower Fees • Maximum Convenience

Information Technology Center ■ 24 McKinley Avenue ■ Endicott, NY 13760-5491 ■ (607) 754-7900 ■ FAX (607) 754-9772
Credit Union Center (607) 786-2000 ■ FAX (607) 786-5718

March 13, 2009

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

RE: Comments on Proposed Rule – 12 CFR Part 704 Corporate Credit Unions

Dear Ms. Rupp and Members of the NCUA Board:

I am writing on behalf of the Board of Directors and management team of Visions Federal Credit Union which is headquartered in Endicott, New York and serves 120,000 members in southern New York and northern Pennsylvania.

The situation faced by the corporate credit unions in our country and their cost in dollars and goodwill to the natural person credit unions is the single biggest issue facing our industry today. I am a credit union CEO who was involved in the birth of the corporates, and my credit union has used their services over the years not because we had to, but to try to keep as much of our investment funds in the credit union movement as possible. I do believe there is a valid need for the corporates. I, therefore, appreciate the opportunity to be constructive and comment on your proposed rule.

I believe this is an opportunity to reevaluate the corporate system. Unfortunately throughout the years, there weren't checks and balances by NCUA. Mergers were improperly approved. Competition was encouraged, which may have put corporates in the position they are in today. This is an opportunity to restructure the corporate system. If we were to design the perfect system in 2009, it should be one that is the most efficient to develop the most capital. With 26 corporates, 26 buildings, and 26 executive staffs, needless dollars are wasted in overhead. If we were to design the system today, it would be one corporate; however, it may be appropriate to have 5 corporates, one for each NCUA region or 3 corporates splitting the country into west, central and east.

We will address the specifics of the proposal below:

1. **The Role of Corporates in the Credit Union System:**

   a. Payment System - It is possible that the payment system should be separated. That it should be one payment system for the entire United States, operating the most efficiently with the lowest cost to credit unions. Bill Payment Systems, Check Clearing Systems, and overhead regarding all of this is redundant. All of the corporates or whatever corporates that are left should ban together with one national payment system. Possibly this could be combined with another organization like the CO-OP for maximum efficiency.

AMERICA'S CREDIT UNIONS
Where people are worth more than money.

b. <u>Liquidity and liquidity management</u>. Liquidity management <u>is</u> the core service that corporates should offer as an alternative to Federal Funds in banks that profess their desire to tax our movement or put us out of business. This mission could be made easier if CLF funds were available directly to the corporates when they might need it, and enabling legislation should be pursued. Better modeling of liquidity for typical and non-typical fluctuation in economic cycles should be established. We agree with those that believe that cash flow duration limits would constrain corporate credit unions from providing competitive short term investments.

c <u>Field of Membership Issues:</u> Competition may have created this problem between corporates. Overlaps are unnecessary. The system should be designed with one corporate for the entire United States or 3 corporates for west, east and center as shown on the attached map, Exhibit A, or a corporate for each individual region. The remaining corporates should be based on the fit of the fittest today. The weak should be eliminated per their past history.

d. <u>Expanded Investment Authority</u>: Corporate credit unions should be allowed to have expanded investment authority. This is a core product for them and as long as they employ qualified staff and establish adequate controls, they will be able to take the additional measured risks and pass the return of that risk on to the natural person credit unions in the form of dividends.

e. <u>Structure; two-tiered system</u>: The two-tiered system of U.S. Central should be phased out. The two-tier system as it is today did not remove risk from the corporates and natural person credit unions. This is demonstrated by natural person credit unions which have to face unprecedented costs relating to funding the share insurance fund through premiums. The phase out should take place over a five year period of time. Proceeds from asset dissolution should go first to creditors, including NCUSIF, and then paid to corporate credit union stakeholders in proportion to their ownership.

It is my suggestion that the bad assets of all corporates be transferred with some sort of an exchange voucher to U.S. Central and U.S. Central be given a life of 5 years to phase out. This will immediately restore health to the remaining corporates, improve capital, and would allow a better system.

2. Corporate Capital:

Corporate capital should be voluntary. There should be no mandatory capital. The corporates should be placed in a position that if they don't perform, credit unions will withdraw their membership.

3. **Permissible Investments:** As stated earlier, permissible investments should be different than natural person credit unions, but the analysis and risk assessment must be thorough and complexity of investments restricted based on capital levels and staff experience.

4. **Credit Risk Management:** There should be a requirement for more than one rating on an investment. The lower of two credit agency ratings should be used on all investments. The corporates must have a credit department that further examines all

ratings to make sure there are no questionable investment attributes. The credit department should have experience examining investments, have use of sophisticated investment stress testing software, and be independent of investment management.

5. **Asset Liability Management:** Corporates should absolutely be required to do net interest modeling and stress testing. It seems incredulous this requirement was ever withdrawn. Modeling will help identify risks that are present within the balance sheets of corporate credit unions measured in changing interest rate environments and economic conditions. Modeling results should be used by corporate credit union management to modify balance sheet make up to better address economic changes.

6. **Corporate Governance:** We believe that no staff of corporate credit unions should serve on the boards of corporate credit unions. Corporate credit union boards should consist of nine (9) directors. If one corporate is decided, there should be 9 directors, one from each of the 5 regions, one from NAFCU and CUNA and NASCUS, and one economist. No compensation should be given to any of them.

7. **Other:**

   a. I believe the office of Corporate Credit Unions should be eliminated. The responsibility for the individual corporates should be given to the regions. I believe the regions should develop a team that examines corporates and large credit unions over $1 billion. Today the billion dollar credit unions have examiners that do not understand big credit unions, and we waste time training these examiners when they come in. I believe specialized audit teams for corporates and large credit unions should be a new priority going forth for NCUA. This should cut the operating fee for credit unions.

   b. In January, the NCUA announced an operating fee increase for natural person credit unions. However, NCUA failed to increase the operating fee for corporates with the same percentages. This appears to be an improper allocation of expenses by NCUA to natural person credit unions.

Thank you for the opportunity to comment on this proposed rule.

Sincerely,

Frank E. Berrish
President/CEO

FEB/Dmc/12 CFR Part 704 Corporate CUs.doc

cc: Mr. Fred Becker, President – NAFCU
Mr. Dan Mica, President – CUNA
Mr. Bill Mellin, CUANY
Mr. Mike Lussier
Mr. Michael Fryzel, NCUA Board
Ms. Gigi Hyland, NCUA Board
Mr. Rodney Hood, NCUA Board