Langley
Federal Credit Union

March 17, 2009

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

Dear Secretary Rupp:

In response to your request for Advance notice of proposed rulemaking and request for comment on Corporate Credit Unions I have the following comments. I am the CFO of Langley Federal Credit Union, Newport News, Virginia and I have been observing Corporate Credit Union behavior for my entire career of 30+ years.

Corporate credit unions have fulfilled an important role in the history of Langley Federal Credit Union. Langley Federal has been and currently is a member of several corporate credit unions, and we have been able to use many of the great services that corporate credit unions provide during the last three or more decades. Today we are a $1.3 Billion dollar asset credit union and we have been a financially sound and strong credit union for our entire 72 year history. We are very happy to use the exceptional payment and clearing services, automated clearing house transactions, liquidity services, operational services and overnight deposit services provided at affordable rates by several corporate credit unions.

I am concerned, however, that 28 corporate credit unions are just too many in number to serve the nation's 7,900 credit unions. Most of the current 28 corporate credit unions were formed during the time when the credit union movement in America boasted about having well over 20,000 credit unions. But, with the decline in the number of credit unions, the need is no longer as great. Tomorrow, as the industry continues to mature, the need will be even less than it is now. Therefore, I suggest that an immediate reform be put into place to reduce the current number from 28 to no more than 8.

Of those eight remaining corporates, I would first like to see five or six regional credit unions that concentrate primarily on helping small and medium sized credit unions with payment and clearing services, overnight liquidity services, simple investment services, and general operational and financial expertise to help them grow and prosper through the awkward times of their life cycles.

Second, I would like to see two or three national corporate credit unions that could provide a higher level of expertise and market presence to both regional corporate credit unions and also directly to the larger ($500 Million Plus Asset Size) natural person credit unions.
Substantive comprehensive changes to the Corporate Credit union system are needed in a big way. The national charter corporate credit unions of today have been stumbling over each other for the past few years with one motive, to garner an ever decreasing market share of natural person credit union business. The top national charters have been spending entirely too much

721 Lakefront Commons / Suite 400 / Newport News, VA 23606
ph: 757-827-7200 / 800-826-7490 / www.langleyfcu.org

time enticing Board Members, CEO's, CFO's and the like, of natural person credit unions, to use their particular corporate's services. The CEO's of these large corporate credit unions seem to be more and more focused toward marketing their credit union than producing superior products and services. In my opinion, these Corporate Credit Unions currently employ too many marketers, and not enough analysts or specialists, in the respective areas of their expertise. I remember talking with one corporate marketer who had been to 20 different conferences within 30 weeks. This activity is overdone, costly and wasteful. When a good specialist comes along, the corporate credit unions often lose their superior expertise in short order to a bank or brokerage firm, because the credit union's compensation structures are carelessly based on credit union philosophy, and rarely are they based on like industry standards.

Payment system services should be isolated/separated from investment service systems. Generally, the trend has been to cover the overall expense of one area by the excesses in the other areas. This practice tends to get sloppy. When both areas are below break-even at the same time, we all fail. Corporate payment system activity should be centered around smaller regional corporate credit unions. These regional corporate credit unions need to be close to their members and closer still to the regions that they serve. People generally need to discuss payment systems, face to face. Credit unions need to be able to meet with their payment system corporate credit union experts within a day's drive. Regional corporate credit unions should also be allowed to work with other regional corporate credit unions to hire better expertise and share the costs. It might be advantageous to end up with a single payment system "hub" to entice national payment system expertise to come on board. However, we have got to keep the local presence in place.

To ensure the future health of the system, distinct capital requirements should be set up for each type of payment system being used. If all the blocks are safe then there is no risk that we have a house of cards. Alternative methods of capital need to be given to all corporate credit unions to provide them the proper tools to get the job done in every single case. These alternative methods of capital are desperately needed as a pool to enhance financial safety of the entire system. Corporate credit unions and natural person credit unions both need new capital tools to ensure long term industry survival. A new alternative capital tool set may require additional regulation with renewed vigor, but the tool set needs to exist.

Without a doubt, we rely upon our corporate credit unions the most to provide and ensure liquidity. Langley Federal Credit Union uses several Corporate Credit Unions to deposit overnight funds. We never want to use a bank or bank held company for this service. We rarely borrow, but if we needed to borrow, we would look toward our Corporate Credit Unions first. We have always supported a good internally postured system. This support just makes sense. If we eventually whittle down the number of Corporate Credit Unions, then all (regional or national) corporates should be able to accept overnight deposits for portfolio diversity and support and to maximize share deposit insurance. At Langley Federal Credit Union we would prefer to make a supporting deposit into each regional and national charter available to us, in order to diversify our overnight deposits and to maximize our share insurance coverage on those deposits.

The larger national corporate credit unions of the future should focus their energies on dealing with the large government liquidity agencies, like FNMA and FHLB, to procure better lending and investment deals on the great menu of existing products that exist, and then pass those real savings back to its Members, with support and expert advice on how to best use those products.. The focus must always be on helping the natural person members all across the country. In the past, it has appeared that commission savings and leveraged expenses were put more toward the benefit of the marketing budgets of the current class of Corporate Credit Unions. Profits were eaten alive by excessive marketing at conferences, liberal Corporate Board travel, and high corporate management salaries. Not enough of the corporate bottom line was returned to the natural person to allow them to see a great alliance. Hence, many credit unions go use outside vendors charging retail prices for services that they could have and should have acquired through their corporate credit union. Any National Corporate Credit Union should be allowed to keep an expanded investment authority provided it is managed and regulated with greater care. More time and effort must be expended by the risk takers in the analyses of advancing systems for the better for all credit unions, and these advancements need to provide a direct benefit and improvement for natural person credit unions.

The corporate credit union capital requirements have always been very puzzling. Some of the corporate leaders said that they never intended to need capital. Obviously, this is wrong. Even with adequate regulation and superior management, bad things can happen to good corporate credit unions. The NCUA should require an increased capital ratio of all future corporate credit unions. To ensure safety, they should provide them with a capital tool kit that allows them to acquire capital in multiple ways. All natural person credit unions that utilize corporate credit unions should be required to contribute toward building capital in these institutions. These corporates need to be rock solid and heavily regulated. Natural person credit unions need them to survive.

Natural person credit unions that have met the minimum capital requirements in support of corporate credit unions should also be allowed to make extra membership capital deposits. That is, as long as there is a sound and transparent profit feature to ensure that earnings made by any particular corporate will be credited back to the investing natural person credit union in a timely fashion. Of course, limits should be placed on the natural person credit unions as to maximum investment, etc.

Risk-Based capital is acceptable for corporate credit unions when they are small, but what happens if a new group of directors takes action to create a much riskier position faster than the regulators can keep up? It would be wise to allow corporate credit unions the ability to maintain an additional surplus of capital, from as many sources as possible, to make this type of risk based feature available after a high core base of capital is in place.

The past six months has unfortunately shown us that most credit rating agencies are useless in bad economic times. Each investment in a higher risk category should be reviewed using good internal investment expertise supplemental to the credit risk agency. In my years of service here at Langley Federal Credit Union, I have found that it is just as profitable to purchase AAA credits with good market timing as it is to purchase AA or A credits. Investments don't always have to be complicated to be valuable. Perhaps the Corporate Credit Unions should spend more time buying simple AAA paper during market dips and less time trying to squeeze money out of turnips. Many times over the years, I have had brokers tell me stories about specific investment purchases by U.S. Central, saying "I know it is investment grade, but financial institutions shouldn't buy that because of such and such reason." Perhaps corporate credit union investment purchases need some rethinking and perhaps they should be required to explain **all** of their investing actions to their Boards and to their customers in order to promote a better level of overall understanding. Top level Investment Stress Testing should also be required at a mandatory level for all Corporate Credit Unions.

NCUA should also consider a requirement of minimum standards for corporate directors, including requiring that a director possess an appropriate level of experience and independence. Generally, fewer director conflicts of interest are needed. Perhaps Corporate Credit Union Board

Members should be restricted to a 10 year maximum term. It would be acceptable to allow the compensation to be paid to corporate directors, but in that case, the NCUA should require greater transparency and disclosure of all director and top management compensation through the annual report. Bringing in outsiders from the credit union movement to be directors would be advisable if the newcomers brought new technical expertise to the system. Credit Union insiders should also be guaranteed a seat at the Board table to ensure that the fundamental credit union philosophy is never lost to the technocrats.

Thank you for allowing us the opportunity to express our opinions on this very important subject. Given the current economic climate, the timing is right to rethink the entire process for the future good of all credit unions and the benefit of their members.

Sincerely,

Gregory D. Manweiler
SVP/Chief Financial Officer

GDM/kr

Cc: Michael E. Fryzel, Chairman, NCUA
Rodney E. Hood, Vice Chairman, NCUA
Gigi Hyland, Board Member, NCUA

Virginia Credit Union League

VACORP Federal Credit Union