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ABNB
Federal Credit Union

March 24, 2009

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

Dear Ms. Rupp:

ABNB Federal Credit Union is a community chartered credit union serving over 46,000 members in Southeastern Virginia. The current economic climate has impacted all of us and many of our neighbors are very concerned about the future of all financial institutions including the future of their credit union. Corporate Credit Unions play a significant role in our operation and as such we believe it is important to take this opportunity to comment on the recently issued ANPR to Part 704 of the NCUA Rules and Regulations regarding the Structure of the Corporate Credit Union System.

At the present time there are twenty-eight corporate credit unions serving approximately 7,900 credit unions. In the past year, many corporate credit unions have experienced a dramatic reduction in the value of their investment portfolios. Recent changes in the financial markets have undermined the stability of the corporate credit union system. These changes underlie the need to identify, address and reevaluate some fundamental aspects concerning the structure, role and services offered by corporate credit unions to the credit union industry. We believe it is important to maintain a strong, agile and efficient corporate network.

Over the years the activities of corporate credit unions have expanded. Developments in the financial services markets will continue to afford new opportunities to provide cooperative solutions therefore corporate credit unions will continue to be a primary resource for natural person credit unions.

The credit union system must continue to have viable alternatives to provide mainstream financial services. This can only be accommodated through regulatory flexibility. As such the activities of corporates should not be unduly restricted.

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A logical approach to improve the system would appear to be to provide the authority U.S. Central exercises to other corporate credit unions. Each corporate should have direct access to the CLF and other sources of liquidity. Reducing the number of corporates may also provide greater capitalization for the surviving corporates and more efficient use of regulatory resources. Surviving corporates should have a National Field of Membership giving natural person credit unions the ability to choose the partner or partners that best meet their needs.

Rather than have separately chartered institutions for each activity, legal and operational firewalls should be established between various activities. The formation of a Corporate Holding Company that includes separate divisions to provide various services would seem to be a viable solution. The corporate holding company should have the authority, based on their individual ability to invest funds and provide services. Distinct capital requirements for payment systems risk and other services should be established.

Along with regulatory flexibility also comes the need for adequate and appropriate measurement of current and future performance. Any time an institution engages in an activity their ability to conduct the activity must be monitored on an ongoing bases. To accomplish this, new methods must be instituted to assure the institution is functioning safely and soundly. Monitoring activities could include more extensive reporting and periodic requalification. Institutions that engage in riskier activities should have higher standards of expertise and operational capabilities than those that do not. If a situation arises where an institution is performing in an unsafe or unsound manner the regulator must have the ability to require it to cease the activity.

Activities credit unions engage in are rarely invented by credit unions. In most cases the activity has been conducted by other financial services providers for years. Credit union regulators must become more knowledgeable of activities of other financial services providers. NCUA must be prepared to regulate activities before they become mainstream whether the activity is designed to enhance corporate or natural person credit unions.

The level of capital required for each institution should be based on the risks they assume considering the level and types of activities they engage in and the services they provide. It is imperative that a thorough review of the capital requirements imposed on other institutions by other regulators be conducted before changes are made for credit unions. Only then can we define and establish requirements for Core, Membership and Secondary capital. In any event, regulatory capital levels should be based on the level and type of activities engaged in rather than a one size fits all approach. Different levels and types of capital might be required for a corporate credit union that provides only payment services while one that provides term or structured investments should have different capital requirements. In today's sensitive economic

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and regulatory environment it is imperative that capital standards for credit unions be consistent with those of other financial services providers. Corporate credit unions that fail to meet established risk based standards should not be permitted to conduct business in those activities until such time as they are able to meet the capital requirements. Such a change may put a halt to activities some corporates engage in today but if they are unable to meet new capital standards they should not be involved in the activities.

Natural person credit unions must continue to have a vested interest in corporate credit unions. They should be required to maintain a contributed capital account with their corporate as a prerequisite to obtaining services from the corporate. Governance could be based on the model of a mutual to provide more equitable representation to stakeholders. A similar governance model could also be adapted for natural person credit unions to permit more flexibility in governance and permit them to achieve greater operating efficiencies through consolidations. Directors should continue to be volunteers (uncompensated) from the institutions they serve. The number of Directors who are also employees of the corporate should be limited. Term limits for directors should be established as a matter of good public policy. Minimum standards for directors that require an appropriate level of expertise and independence is also good public policy.

Sincerely,

Carl Ratcliff
President/CEO

Copy Michael Fryzel, NCUA Chairman
Rodney Hood, NCUA Vice Chairman
Gigi Hyland, NCUA Board Member
Rick Pillow, VCUL
Fred Becker, NAFCU
ABNB Board of Directors