2097

OnPoint®
COMMUNITY CREDIT UNION

March 30, 2009

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

Dear Ms. Rupp,

Thank you for the opportunity to comment on the structure of Corporate Credit Unions (CCUs) in response to the Advanced Notice for Proposed Rulemaking on this topic. While we believe that there is a clear continued need for CCUs in the credit union movement, today's structure provides opportunities for enhanced efficiency and oversight to ensure the safety and soundness of the movement going forward.

The Role of Corporate Credit Unions

The nature of the corporate system is to provide support in the areas of liquidity and investment management, payment processing, deposit processing, and a variety of correspondent services to Natural Person Credit Unions (NPCUs). CCUs serve about 90% of NPCUs in some form. Provision of a variety of services is important to NPCUs, as many small- to mid-size credit unions do not have the resources internally to support all of the services and functions required to best serve their memberships. For many of the services provided, economies of scale provide efficiencies that would allow for lower costs passed onto NPCUs. CCUs exist to serve NPCUs. Providing that service in the most efficient manner possible should be a primary mission of the restructured CCU system.

To support continued provision of a wide variety of financial products and services with appropriate expertise, a clear area of opportunity is to reduce the number of CCUs from the current 28 (including the wholesale corporate) to as low as three. Few functions depend on physical presence or locality to be effective, and those that do, such as item processing, could be accomplished via maintenance of satellite offices that receive and process work, then transmit it electronically to central sites or clearing points, as needed. Membership in these remaining institutions–or perhaps three branches of one consolidated central institution–could be defined geographically, similar to the Federal Reserve Bank and Federal Home Loan Bank systems.

P.O. Box 3750
Portland, OR 97208-3750
503.228.7077
800.527.3932
www.onpointcu.com

While a steep reduction in the number of CCUs may seem dramatic, additional benefits and characteristics of this change may be as follows.

- Increased scale in negotiating business deals and pricing on their members' behalves
- Regional field of memberships would eliminate the competing for business among CCUs that can cause more aggressive investments or other behaviors that can negatively impact safety and soundness
- Each CCU would offer a full array of products and services, ensuring that all NPCUs would have access to such offerings
- Top talent must be attracted and retained to ensure quality management of all business lines
- Consolidation of operations would significantly reduce operating costs

In the above-described CCU structure, please note that there is not a separate wholesale credit union. It is assumed that each of the three regional CCUs would possess the scale required to perform investment trades or other functions currently handled by the wholesale credit union, thereby eliminating the need for that additional layer within the CCU structure.

Corporate Capital

Today's CCU capital requirements, with the exception of special allowances provided for those CCUs with expanded investment authorities, take a one-size-fits-all approach. As has been implemented in other regulatory areas and is sought for NPCUs, a risk-based approach for capital requirements may provide a better approach to ensuring the proper levels of capital are maintained, based on individual CCU activities at any given time. The risk-based approach should consider many factors that would impact the risk level of the CCU, including various attributes of investments, liquidity availability, asset/liability management practices, and investment credit quality, among others.

A primary factor in ensuring the safety and soundness of CCUs and their capital positions is adequate available liquidity. To accommodate the investment and lending services provided to member NPCUs, CCUs may experience significant swings in their balance sheets within short periods of time. Therefore CCUs require abundant liquidity sources. To ensure adequate liquidity, the Central Liquidity Facility (CLF) should be made available to CCUs directly. This would alleviate the need for programs such as the current credit union System Investment Program that requires NPCUs to borrow from the CLF and pass the borrowings through to the CCUs. Reduced paperwork would benefit both NPCUs and CCUs.

Corporate credit unions should require that only credit unions contributing core capital participate in their services. Capital contributions should relate to the level (dollar amount) of services provided for each credit union—specified borrowing limits and/or investment limits, rather than asset size. Basing these contributions on asset size assumes that there is a correlation between asset size and the amount that a NPCU utilizes the services of a CCU. This is often not the case as larger NPCUs may have relationships with multiple CCUs, and with other financial service providers such as correspondent banks, the Federal Home Loan Bank, and the Federal Reserve Bank. Requiring capital contributions for all users based on usage specifications set will provide a fair and equitable basis for capital contributions.

Permissible Investments
CCUs should retain their access to making investments that are riskier than those allowed for NPCUs (within regulations), as long as they have sufficient capital to support such investing. In tandem with the idea of implementing risk-based capital standards, and with the requirement that sufficient expertise be in place to make investment decisions and manage the investment portfolios, this can provide added value to NPCUs who seek CCU product as investments. CCUs should remain authorized to invest in all investments that meet quality levels specified within current regulations, assuming proper capital and expertise.

Credit Risk Management
Credit ratings for investments have come under intense scrutiny in the recent past, as it has become clear that insufficient due diligence supports some of the ratings assessed by rating firms. However, credit ratings remain as one indicator of the expected performance of a security, so should still be considered within an investment decision. To better reflect the range of possible performance outcomes of an investment security, CCUs should increase the analysis and stress testing of securities prior to purchase.

Asset Liability Management
CCUs should be required to perform net interest income modeling and stress testing to ensure they are knowledgeable about their near-term income volatility potential. This understanding can provide another view, in addition to Net Economic Value (NEV) modeling, of how the CCU's balance sheet is likely to perform in the coming year, and can provide an early warning if earnings will not be sufficient to maintain adequate capital levels. It is important to utilize multiple tools and apply multiple scenarios, beyond just +/-300 basis point rate shocks using NEV, especially with interest rates at historically low levels.

Corporate Governance
CCUs deal with complex financial transactions and practices, and advise NPCUs on critical investment, lending, and asset liability management issues. The dollar

impact of these decisions and advisements is large, and far-reaching across the country. Therefore it is critical that directors be qualified, experienced and independent so that decisions are made for the optimal benefit of the membership, rather than certain members individually. To achieve the right level of knowledge, experience and perspective, outside directors should be considered, for Board positions. Given the magnitude, specialization, and criticality of the required subject matter, compensation of board members is appropriate. Application and acceptance onto the Board of a CCU should be a rigorous process to ensure that only the right candidates are successfully named to the Board. The process should be competitive, and compensating Board members would provide incentive for qualified candidates to assume these positions.

Term limits for Board members would help ensure that fresh perspectives are heard on an ongoing basis. Term limits should allow adequate time for Board members to come up to speed and pursue multiple initiatives during their tenure, and then allow others to have opportunities to provide ideas and leadership and transform the organization over time. A maximum term of 10 years is recommended to achieve these goals.

Should a wholesale credit union continue to exist following the restructuring of the CCU system, similar requirements for experience, education and independence should apply. Candidates should be considered, based on key qualifications, from CCUs, NPCUs, and outside of the credit union movement to ensure best in class leadership. Additionally, compensation of Board members should be in place, as well as term limits, at the wholesale credit union level.

Thank you again for the opportunity to provide input on the various aspects of CCU restructuring being discussed in light of today's financial environment. I appreciate the collaborative nature of this request, in line with the credit union movement, and look forward to continued involvement in this restructuring process as it develops for the benefit of the credit union movement going forward.

Sincerely,

Robert A. Stuart

Robert A. Stuart
President / CEO

c: Credit Union National Association
Mary Mitchell Dunn, SVP & Deputy General Counsel
Fax # 202-638-7052