April 6, 2009

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

RE: Advanced Notice of Proposed Rulemaking (ANPR) for Part 704

CUAO appreciates the opportunity to provide input on the Advance Notice of Proposed Rulemaking (ANPR) on National Credit Union Administration (NCUA) regulation, Part 704, regarding Corporate Credit Unions.

The Credit Union Association of Oregon (CUAO) is a nonprofit, professional trade association representing Oregon's state, community, and federally chartered credit unions. Since 1936, CUAO has been at the forefront of credit union issues at the state, regional, and national level, and provides a voice for Oregon's 1.4 million credit union members on issues impacting credit unions at a local level.

We are pleased to offer suggestions for modifications to the corporate business model to allow for a safe and secure partner our credit unions can rely on for their payment, clearing, transfer, liquidity, settlement and investment needs. The following comments will also establish the desire of our credit unions for continuation of the corporate system and how our credit unions in Oregon utilize their corporate.

While certainly there is agreement that significant changes are necessary and we support NCUAs evaluation and prudent revisions to 704, we would caution you to not overreact.

Role of Corporates in the Credit Union System

Payment System: Currently, payment systems offered by corporates are coupled with other services. Should payment services be isolated from other services to separate the risks?

No, it would be a mistake to simply fragment the corporate system into functional areas to separate the risks. The result would create the need for additional overhead and will create inefficiencies and increase costs for the credit unions utilizing those services.

However, significant consolidation should take place within the corporate network to eliminate redundancy and increase operating efficiencies. A smaller number of corporate credit unions will require closer oversight by NCUA.

While not suggesting the right number of surviving corporates or where they are located, members of corporate credit unions should determine the extent of restructuring that would occur within the corporate system.

Additionally, there is no longer a need for a wholesale corporate credit union such as U.S. Central. Many of the services and products are duplicated within the current system. This business model is highly inefficient and redundant, and should be eliminated over a phase out period.

What corporate services are Oregon credit unions currently utilizing? Our credit unions utilize one, or in some cases multiple, corporate credit unions and identified the following as core services provided by their corporates; primary settlement account, deposit processing, share draft processing, ACH receipt and origination, wires, coin and currency deposits and orders, ALM consulting and short-term liquidity needs via line of credit. Corporate credit unions deliver appropriate training and updates on key industry trends, which is appreciated by our credit unions.

If corporates vanished today, what would be the biggest loss to our credit unions? The user-friendly interfaces to corporate services would be very difficult to replace. Credit unions like to be able to access corporate services through one easy-to-use, secure web interface. Most credit unions do not have the staff or the resources to utilize these services directly through the Federal Reserve. They also do not have the time or expertise to investigate other options available to them elsewhere. Without Corporate, the only other option is a correspondent relationship at a bank. This choice is fundamentally not one acceptable to most of our credit unions.

Field of Membership

We support a national field of membership to encourage competition and diversify the portfolios for those entities, from a regional perspective. Multiple choices for credit unions in every market means more affordable services.

Capital

A higher core capital ratio should be considered for corporate credit unions. This ratio should be variable based upon the type of investment risk a corporate engages in. Corporate credit unions' Tier one capital requirement should be at least 4% and could be as high as 7%. Risk- based capital should also be required consistent with other federally regulated financial institutions.

Our credit unions believe that membership capital should meet the traditionally accepted definition of tier-two capital. Some would appreciate the option of contributing tier-one membership capital, however, a contributed capital account as a prerequisite to obtaining its services should not be a requirement for credit unions obtaining a low level of services, such as the case with some of our smallest credit unions. In most cases they suggest they are willing to pay more for services than contribute capital. Alternatively, member contributed capital could be calculated as a percent of the asset size of the credit union.

Investment Authority

NCUA should carefully review corporate credit unions' investment authority. Corporate credit unions should not be permitted to concentrate their assets in long-term, on-balance sheet investments because such activities have resulted in some corporate credit unions taking on more risk than they could reasonably manage or mitigate.

Credit Risk Management

The NCUA should require more than the current one agency rating for an investment and require additional stress modeling for proper credit risk management. In requiring multiple agency ratings, the lowest rating should be the most weighted factor.

Again much of the current economic condition was caused by an extraordinary market conditions and we urge NCUA not to overreact or over regulate the corporate system. However, the system would benefit from better oversight, higher qualifications of key management and more transparency to the whole investment operations.

There are a number of controls that the NCUA can and should put into place to ensure that corporate credit union's liquidity is not threatened or compromised for the protections of natural credit unions. These controls should include restrictions on the types of investments, appropriate modeling, and liquidity contingency plans.

Corporate Governance

The board of directors for corporate credit unions should have a much higher than average level of understanding and expertise relating to corporate credit unions. On this point our credit unions agree.

Ideally, these directors should be part of the credit union movement, but independent from the corporate credit union structure. However, some of our credit unions acknowledge that directors with varied backgrounds, even those outside the movement and not strictly members of corporate, should be allowed. Diversity within the board can often provide a necessary broader perspective on the issues at hand.

On the subject of compensating board members, this is an area where many of our credit unions wish to maintain our difference, even at a corporate level, and not allow compensation of any kind for board members. Others disagree and feel it is appropriate for a limited number of board members to be nominally compensated.

It is in the area of corporate governance our credit unions were most passionate and voiced differing opinions. To some degree regulations here should allow the members of each corporate to determine the best path. We encourage that regulations allow for options and flexibility, allowing for oversight and accountability on the subject of corporate governance.

In conclusion, the failure of some corporate credit unions has come at great expense to natural person credit unions, both monetarily and to our reputation. These events have caused uncertainty and alarm within our membership and with our credit union's members. The failure of some, and stress on remaining corporate credit unions should raise the bar on future due diligence required and on regulatory oversight. Changes to the current corporate credit union structure are imperative. However, it is questionable whether any of these suggestions here could have prepared the industry for the global changes affecting the financial markets and the subsequent decline of investment portfolios. The suggestions will hopefully shield the industry from future failures. Again we caution NCUA not to overreact, take prudent steps and provide appropriate transition time allowing for any changes to occur.

Thank you once again for the opportunity to provide comments and perspective on these industry-changing issues.

Respectfully Submitted,

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