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April 2, 2009

The Honorable Michael E. Fryzel
 Chairman
 National Credit Union Administration
 1775 Duke Street
 Alexandria, VA 22314-3428

The Honorable Rodney E. Hood
 Vice Chairman
 National Credit Union Administration
 1775 Duke Street
 Alexandria, VA 22314-3428

The Honorable Gigi Hyland
 Board Member
 National Credit Union Administration
 1775 Duke Street
 Alexandria, VA 22314-3428

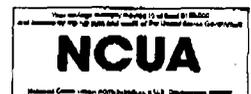
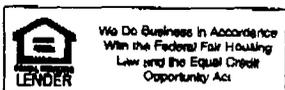
Dear Chairman Fryzel, Vice Chairman Hood and Board Member Hyland:

Apple Federal Credit Union (AFCU) appreciates the opportunity to comment on the NCUA's advanced notice of proposed rulemaking concerning corporate credit unions. There have been numerous changes since the request for comment was first issued, the most significant being the conservatorship of U.S Central and Wescorp. Our position represents our historical experience combined with our evaluation of the current changes.

CORPORATE STABILIZATION COSTS

Events that have shaped our opinion

Apple had member capital with Capital Corporate in the early nineties. The NCUA liquidated them resulting in a significant loss to Apple. The insurance fund was not used to solve this problem, each capital holder was held accountable for their investment. As with today, investment activities were the cause of failure.



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A few years back Apple had a substantial amount of certificates with Western Corporate Federal Credit Union. We became worried when our investments significantly outperformed federal agencies of comparable duration. We became so concerned that we invited Wescorp to our headquarters to explain how they were managing the risk. Ultimately we were not convinced that our money was safe and we systematically reduced our deposits. Our member capital commitment was reduced to a more comfortable level by the end of 2008. We were satisfied that we did what was necessary to reduce our exposure

Our opinion of the impairment and premium assessment

The NCUA assessment is working against our efforts to maximize value for our members. Until the completion of the PIMCO evaluation, the NCUA publicly downplayed the impact of a 60 basis point hit to income. Even with the current attempt to spread costs over several years, we feel the NCUA is grossly minimizing the perils of today's environment. The housing crisis has driven up loan loss throughout the industry. All member and paid-in capital at corporates will either be lost or reduced. One must also consider the possibility of additional increases in insurance premium if any natural person credit unions fail. Despite our overall financial strength, any unforeseen loss will have short-term ramifications.

We understand the need to fund the NCUSIF to cover insured deposits of natural person credit unions. We stand accountable for the small amount of member capital we held with Wescorp. We do not feel accountable for saving U.S. Central or Wescorp. We exercised the proper management to reduce our exposure. Even more troubling is the lack of parity in the insurance fund composition. To state it plainly, corporate credit unions have no skin in the game. Using Wescorp as an example, in December 2008 they had insured shares of \$240 million. They were a \$24 billion dollar institution. Apple is a \$1 billion dollar institution with over \$855 million in insured shares.

For over fifty years Apple consistently produced positive net income in a variety of economic conditions. The corporate stabilization program may challenge this record if we are unable to spread the impairment and assessment over several years. Although we have plenty of capital to remain safe and sound, it would be unrealistic to think we will emerge completely unscathed from the worst case scenarios. Extreme shocks to short-term income are likely to create a detour from growth and value creation. Our board has taken note and for the first time in our history, asked us to look at the pros and cons of a bank charter. This was unthinkable in the past.

Although we are encouraged by the NCUA's recent attempt to spread the cost to credit unions over several years, it does not supplant the inequity of natural person credit unions paying for the corporate system. When considering the overall impact of the proposed NCUA assessment, we feel TARP is the best answer regardless of any potential industry changes.

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RESTRUCTURING OF THE CORPORATE SYSTEM

Apple Federal Credit Union **does not need corporate credit unions**. We have viable alternatives for liquidity, investments and transaction processing. We see the corporate model as inherently unprofitable. The inability to generate sufficient loan volume has consistently forced undue risks on the investment side. This assertion is supported by the current crisis and the previous Capital Corporate situation. Our fiduciary duty to our members dictates that we eliminate all future exposure to the corporate system.

The lack of transparency regarding details of the corporate demise makes it difficult to make suggestions. Absent numbers that prove otherwise, we feel the **corporates should be liquidated**.

Suggestions if Corporates continue to exist

If corporates continue to exist, we offer the following suggestions:

- **The three-tiered system should be eliminated. National fields of membership should be abolished.** A few regional corporates would be sufficient. The national field of membership was a strong contributor to the unnecessary risk taken on the investment side. Competition between corporate credit unions has further accentuated the weakness of the business model.
- **There should be a separate insurance fund or an elevated funding requirement for corporates.** As noted above, there is no parity in the current system.
- **Corporate functions should be limited to essential business needs.** Required capital should be at reasonable levels to prevent failure from these activities.
- **Politics needs to be removed from the governance of corporate credit unions.** It is not appropriate for league presidents and trade association executives to be on the board of directors. We see this as a conflict of interest. Corporate boards should combine representatives from natural person credit unions and those with outside expertise in areas such as the capital markets. There needs to be standards of qualification for those outside of the industry. We do not support term limits for directors. Payment for directors should be left up to each individual corporate. We do not feel payment should be disclosed to the public.
- **The NCUA needs to take its share of the responsibility for the failure of corporate credit unions.** There have been negative GAO reports concerning the corporate system. Many natural person credit unions began pulling out of corporate credit unions before the mortgage fallout occurred. Examiner competence and training must coincide with the financial sophistication and complexity of the organizations being examined.

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Thank you again for the opportunity to comment. We are hopeful that the industry will stay on course by establishing a system that encourages accountability and equity.

Sincerely,



**Larry Kelly
President/CEO
Apple Federal Credit Union**