March 30, 2009

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

Re: Corporate Credit Unions ANPR

Dear Ms. Rupp:

The comments will follow the outline of the ANPR.

Role of Corporates in the Credit Union System

The payments system service that the corporates provide should be maintained in some form. Whether that is possible on a stand-alone basis is an economic decision that has to be determined. If it requires additional capital or fees from the credit unions, that would be the price to pay to eliminate some of the capital risk that can be experienced due to losses on certain investments. If the corporates can do limited investments with much lower risk and help offset some of the costs, this would be preferable.

The role that the corporates have provided in ensuring liquidity in the system is important but is not absolutely necessary for large credit unions. Large credit unions can access the FHLB's and other financial institutions but it would seem to be best to retain the liquidity function that the corporates provide but in a different form than currently seen with a lower level of investment risk as will be discussed later. Small credit unions would be left to the mercy of predatory banks.

Competition is the best way to encourage good pricing and service. As a large credit union we do have choices but would prefer to have the choice of doing business with other corporates. As a member of SW Corp FCU, we currently use them extensively for our payment systems including, deposit processing, ACH origination and receipt, automated settlement, wire transfer, security safekeeping and share draft processing with branch capture. We heavily depend on SW Corp FCU payment systems and would suffer severe hardship if lost.

National field of membership should be maintained in order to maintain competitiveness. Well managed, well regulated institutions should be enhanced by competition and not hurt by it. In this day there seems no reason to limit access based on a geographical basis. It seems more likely to add risk to the corporates to limit membership to one region rather than national as economic issues and downturns can be focused on one region so national membership would help insulate the corporates from regional downturns.

The expanded investment authority of Part 704 should be eliminated and other changes to the list of eligible investments should be changed as will be discussed later in the Permissible Investments section. Recent history has shown that any expanded investment authority is unnecessary and can be destructive to the industry.

The two tiered structure of corporate credit unions should be eliminated. The cascading risk down from U.S. Central to the other corporates and then to credit unions creates a situation where the credit union is at risk from U.S Central yet has no direct involvement or shareholder say in their decisions but has to bear the burden of losses created by U.S Central. There are inefficiencies built into a multi-tiered system and any functions that U.S. Central provides the corporates could be provided by other financial institutions, whether private or public. However, if the corporate credit unions need this structure, then U.S. Central must be greatly changed. We understand the corporates need U.S. Central to slowly evolve into a CUSO provider of off-balance sheet services.

Corporate Capital

The required capital of corporates should be increased and strengthened. A core capital requirement exclusive of member capital is a must. The required ratio should be similar to other regulated financial institutions but adjusted to take into consideration the limits on investments that the corporates should have going forward. A ratio of at least 4% would seem to be required. The corporates will need to strengthen their core capital as it will be much more difficult to attract member capital from credit unions after the experience of having to charge off membership capital due to losses from the corporates investment portfolio.

Membership capital does not need to be adjusted to bring it in line with the definition of tier 2 capital. If the core capital is strengthened and risk-based capital requirements are implemented no change to member capital should be necessary. It will be difficult for corporates to attract membership capital going forward with the impairments of said capital that credit unions have experienced so any change to membership capital rules that adds additional restrictions would only reduce the desire of credit unions to invest member capital in corporates.

Risk-based capital requirements as required at other regulated financial institutions should be put in place. A risk-based system is prudent and rewards or disciplines institutions for the risk they take and management decisions they make. A ratio of at least 8% would seem to be necessary.

Permissible Investments

Mortgage securities not guaranteed by the U.S. government or a government sponsored enterprise should not be permitted as investments for corporates. CDO’s and most other derivative type products should either be disallowed or extremely limited. The additional spread that might possibly be gained by non-agency mortgage securities over agency backed mortgage securities is significantly overshadowed by the increased credit risk and market risk that is inherent in these securities. This is an extremely important point. A corporate credit union that can't maintain profitability without these types of securities should not stay in existence. There is an almost unlimited amount of variety of agency backed mortgage securities with whatever average life, collateral characteristics, fixed or adjustable, etc. and endless tranches that should be able to satisfy any interest rate risk or investment issue. The corporates should have additional limits place on them for the amount of corporate bonds they can hold. This could be done by adding sector or concentration limits for the different type of investments they are allowed to make.

NCUA should require that the consensus rating of the main rating agencies meet the regulatory requirements and not require just one rating or even the lowest rating. If there are only two ratings offered then the lowest would need to meet the requirements. It would be prudent to add a requirement that the rating to be considered has to be within a reasonable time period of when the investment was made, possibly within the last two to three years. Some of the concern of the credit ratings will be eliminated if non-agency backed securities are eliminated as eligible securities. Concentration, sector and obligor limits are all prudent measures that should be taken.

Asset Liability Management

NCUA should require net interest income modeling and stress testing. Most are or should be doing this anyway but making it a requirement will allow the NCUA to set standards and more closely review the modeling that is being done.

Corporate Governance

No changes are needed to the way corporates elect and sit their boards. The member credit unions have ample opportunity to change the form or structure of the corporates boards through their involvement with the corporate and its board of directors.

Summary

- Two-tiered corporate structure should be eliminated or intensely overhauled into a CUSO provider of off-balance sheet services
- Core capital requirement at corporates increased to at least 4%
- Enact risk-based capital requirements similar to other regulated financial institutions
- Mortgage securities not backed by a GSE should not be permitted as an investment by corporates
- Expanded investment authority under Part 704 should be eliminated

Respectfully,

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