

**From:** Michele Sosa/SF Rec&Parks [sfrec-parksfcu@att.net]  
**Sent:** Thursday, April 02, 2009 6:32 PM  
**To:** \_Regulatory Comments; \_Regulatory Comments  
**Subject:** Michele Sosa - Comments on Advanced Notice of Proposed Rulemaking for Part 704

April 2, 2009

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

Ref: Advance notice of proposed rulemaking (ANPR) regarding the structure and operations of corporate credit unions

Dear Ms. Rupp,

NCUA's ANPR seeks input from all stakeholders in the credit union industry regarding reforms to the regulatory and functional structure of the corporate system. It is a sweeping reconsideration of the current role corporate credit unions play in the credit union system, including their charters, powers, investment authority, capital requirements, fields of membership, risk management and governance. In my view, the ANPR takes an unnecessarily broad approach in that it assumes the current corporate system is flawed in virtually every respect, and therefore requires a complete retooling. While I fully acknowledge the serious stress that has been placed on the corporate system due to a variety of factors—some possibly foreseeable and preventable, some not—I do not agree that the current situation warrants what would amount to a wholesale remaking of corporates as they are known and used today. Therefore, rather than addressing the multitude of detailed questions in the ANPR, I would prefer to provide my views on the role of corporates in the credit union system, including my opinion of some of the key issues presented in the proposal.

I believe that corporates serve a vital role for credit unions. By serving as a central point for credit union investment and payment system services and aggregation, they provide many services that typically would be economically available only to the largest financial institutions (e.g., share draft processing, wire transfers, ACH services, cash orders, etc.). By managing liquidity within the credit union industry, corporates are able to effectively and efficiently move excess liquidity to the areas of greatest need. In addition, they provide the wherewithal to help credit unions manage risk, and are uniquely positioned to facilitate participation lending. Operational efficiencies and cost considerations prohibit many credit unions from obtaining these services directly from the Federal Reserve.

Without corporates, my credit union would be largely dependent on more than one bank or bank-affiliated institution for these services, which would no doubt add significant additional costs and due diligence burdens to our credit unions' operations, which would ultimately be passed on to members in the form of lower dividends or higher loan rates. Therefore, I strongly disagree with any action which would substantially alter the fundamental role and functions of the current corporate system.

My disagreement with the ANPR includes NCUA's contemplation to establish separate charters for payment system services and investments, as well as a return to defined fields of membership. I believe such a move would be anti-competitive and would hamstring the viability of the corporate system, likely leading to future problems requiring intervention by NCUA and/or natural person credit unions. Furthermore, not every corporate offers a full array of services (e.g., item-processing for imaged items). Restricting corporate usage to geographic fields of membership would unfairly and unsafely restrict credit unions from accessing critical corporate services. Along the same lines, I feel that a requirement that an "outside director" be from entirely outside the credit union industry would be potentially damaging, and could serve to weaken the unique nature and philosophy of credit unions (and, frankly, I believe that such a requirement would not have prevented current circumstances).

While I staunchly support the continuation of the corporate system, I feel there is room for greater efficiencies, more effective risk management in the system, and governance enhancements.

**Greater Efficiencies.** I believe that corporate consolidation would be beneficial to the system, and that NCUA should be more open, responsive, and supportive of such consolidation by removing unreasonable impediments and/or resistance to corporate credit union mergers. I realize that each tier of the corporate network takes its own share of income, adds another layer of cost, each has its own capital requirements, all of which reduces efficiency and effectiveness.

**More Effective Risk Management.** Recent events indicate that corporates require a larger capital cushion, a greater diversification of investment to include more restrictions on concentration risk, and more—or at least better—risk management tools. In addition, to provide an even more robust "firewall" between corporate credit union risk and natural person credit union safety, NCUA might consider the creation of a separate insurance fund or separate insurance "system" for corporate credit unions in the future. As the Federal Reserve and Treasury contemplate measures for reducing systemic risk, it will be important to recognize the systemically important role the corporate system plays in the nation's "financial plumbing." Ultimately, 90 million credit union members rely on the corporate system to provide trading, payments, clearing, and settlement services for their local credit unions. NCUA's aim should be to assure that the credit union system as a whole is better able to withstand future shocks.

**Enhanced Governance.** Finally, I am of the opinion that term limits for directors would be reasonable, as would minimum standards for experience, knowledge, and training.

To summarize: I believe that while the corporate system is in need of some key adjustments, it is not broken. External factors are what caused the current crisis, not the corporate system structure. Going forward, our credit unions would like to be reassured that NCUA will maintain an ongoing evaluation as to the possible need to continue the corporate deposit guarantee past 2010, and that the Agency is prepared to address the concurrent maturities of CU SIP investments.

In closing, I thank the NCUA Board for the opportunity to provide the views, concerns, and recommendations of natural person credit unions on the Agency's unprecedented action. I cannot emphasize enough how critical it is that the Board seriously consider these views, which come from many of the credit unions hardest-hit by NCUA's actions. I urge the Board to act to strike an effective and fair balance between the current needs of the corporate system and the very real, long-term, substantial needs of the entire credit union movement, and to

strive for cooperation and transparency with credit unions in the process. I believe that to not do so will ultimately hurt public confidence in credit unions and the NCUA, and will be financially detrimental to American consumers.

Sincerely,

Michele Sosa  
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San Francisco, California  
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\$13.5 million, 1260 members