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AFFINITY PLUS
FEDERAL CREDIT UNION

April 2, 2009

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

RE: Comments for Advanced Notice of Proposed Rulemaking, Part 704

Dear Ms. Rupp,

Thank you for the opportunity to provide the NCUA Board with my comments and opinions regarding their Advanced Notice of Proposed Rulemaking (ANPR) on Part 704 regarding the Corporate Credit Union System. I will provide broad commentary and then specific to each question asked in the ANPR.

First and foremost, I do not believe that the current financial crisis facing the Corporate Credit Union System is a result of the structure of the Corporate system and therefore, do not believe that the NCUA should regulate the structure and number of Corporate Credit Unions. The market should determine the number of Corporates and the services they offer.

Secondly, I would urge the NCUA to use caution and patience as the impacts of this financial crisis are affecting credit unions. The costs to natural person credit unions have been exorbitant and seem to only increase with each action taken by the Agency. I would remind the Agency that the capital of Affinity Plus is owned by our members and not just for the discretionary use of NCUA. The end result is that all of the members of natural person credit unions are paying for this plan. Future assessments should be based on actual - not assumptions or models of worst case losses.

I would also encourage NCUA to use the same standards of transparency they expect from the credit unions they regulate and insure. Since natural person credit unions are the most negatively impacted and paying to replenish the NCUSIF, we should have access to all of the information, assumptions and models NCUA used to determine the amount of the potential losses and the decision to conserve US Central and WesCorp. This would include disclosure of the contract terms with the third parties contracted to complete all analysis.

Lastly, I would encourage NCUA to take whatever legislative remedies are available to minimize the financial impact in the short and long term to natural person credit unions. In a time when credit union ROA continues to decrease, help us to minimize the impact to our financial statements so we don't have to dramatically impact our members.

ANPR Issue Description and Questions

Recent events have highlighted structural vulnerabilities in the corporate credit union system. NCUA is considering whether comprehensive changes to the structure of the corporate system are warranted. Possible approaches the agency is considering include eliminating the second or wholesale tier from the Corporate system, modifying the level of required capital, isolating payment services from the risks associated with other lines of business, determining which product and service offerings are appropriate for Corporates, requiring a restructure of Corporate boards, and tightening or eliminating the expanded investment authority that is currently available to Corporates.

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Response: The structure of the Corporate Credit Union system did not cause the issue and I don't believe that NCUA should regulate the number of tiers or the product offerings of the Corporate System. Having said that, I think it is inefficient to have multiple tiers between the natural person credit union and the Corporate they do business with. The system should be collapsed to one tier.

Payment system. Some of the questions and issues arising in this context, on which the Board is seeking comment, include matters such as whether payment system services should be isolated from other services to separate the risks. If so, what is the best structure for isolating these services from other business risks? Specific comment is solicited concerning whether, for example, it would be better to establish a charter for corporate credit unions whereby a Corporate's authority is strictly limited to operating a payment system, with no authority to engage in other services, such as term or structured investments. Additionally, a separate charter may be available for corporate credit unions that want to engage in providing investment services. Another alternative would be for NCUA to establish distinct capital requirements for payment systems risk and the risks of other corporate services. NCUA could also require that a legal and operational firewall be established between payment system services and other services. In connection with this topic, comment is also sought on the question of whether there is sufficient earnings potential in offering payment systems to support a limited business model that is restricted to payment systems services only.

Response: I think that Payment Systems are a core function of the Corporate Credit Union system and should not be segregated from each Corporate or into an entity with a separate charter. I do think that Corporate Credit Unions that enter into other lines of business should have capital requirements that are reflective of the risk associated with the additional line of business. I also believe that many of the payment systems can be consolidated to achieve economies of scale.

Liquidity and liquidity management. Historically, the primary role of corporate credit unions has been to provide and ensure liquidity. Corporate investments were made with an eye towards ensuring funds would be available (or used as collateral for borrowings) to meet members' short-term liquidity needs. Recent events underscore the need to assure a Corporate properly considers its investment position relative to its cash flow needs. The Board recognizes and understands that providing liquidity for the credit union system is one of the principal purposes of the corporate credit union network. One question for consideration and comment is whether liquidity ought to be considered a core service of the Corporate system, and if so, what steps should be taken, and by whom, to preserve and strengthen Corporates' ability to offer that service? For example, should NCUA consider limiting a Corporate's ability to offer other specific types of products and services in order to preserve and defend the liquidity function? What specific types of products and services should Corporates be authorized to provide?

Response: Liquidity services should be considered a core service of the Corporate Credit Union system. I would not limit their ability to offer other services just to have the ability to offer liquidity services. I would require them to have additional capital and expertise in the new line of business. Once again, market demand should determine what liquidity services credit unions need and NCUA should then regulate these services based on reasonable safety and soundness concerns.

Field of Membership Issues. NCUA also seeks comment on whether and how to restructure the Corporate credit union system. For example, despite its intention of fostering competition, NCUA's decision to allow Corporates to have national fields of membership (FOMs) may have resulted in significant, and unforeseen, risk taking. For example, Corporates have competed with each other to offer higher rates, and have done so through the accretion of credit and marketability risks. To address this development, should the agency return to defined FOMs, for example, state or regional FOMs?

Response: A great deal of the crisis facing Corporate Credit Unions was caused by the granting and expansion to national fields of membership. While I believe competition to good, too much competition for market share in a small and shrinking market created an environment that encouraged additional risk that was not properly identified, managed or regulated. The Agency should consider regional fields of membership and delete national fields of membership.

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<u>Expanded Investment Authority</u>. At present, Part 704 provides for an option by which Corporates meeting certain criteria can qualify for expanded investment authority. For example, a Corporate meeting the criteria set out under Part One of the expanded authority is allowed to purchase investments with relatively lower credit ratings than otherwise permissible under the rule. NCUA seeks comment, first, as to whether the need for expanded authorities continues to exist. If so, should NCUA modify the procedures and qualifications, such as higher capital standards, by which Corporates currently qualify for expanded authorities? If so, what should the new standards be? Should NCUA reduce the expanded authorities available? If so, which ones? Alternatively, should any of the limits in existing expanded authorities be reduced or increased? If so, which ones? Once granted, should NCUA require periodic requalification for expanded authorities? If so, what should be the timeframe?
Response: I believe that Corporate Credit Unions with the demonstrated ability to measure, monitor, manage and report on the additional risks they are undertaking as part of the expanded investment authority should be able to continue. I also believe that the Corporate with expanded investment authority should have additional Capital to offset the amount of risk they undertake as part of the expanded authority. Currently NCUA grants the expanded authority and annually reviews the applicability of continuing with the expanded authority. I believe this practice should continue.

<u>Structure; two-tiered system</u>. Over time, the Corporate system has evolved into two tiers: a retail network of Corporates that provide products and services to natural person credit unions, and a single, wholesale Corporate that exclusively services the retail Corporates. NCUA solicits comment about whether the two-tier Corporate system in its current form meets the needs of credit unions. Specifically, NCUA seeks input from commenters about whether there is a continuing need for a wholesale Corporate credit union. If so, what should be its primary role? Should there be a differentiation in powers and authorities between retail and wholesale Corporates? In considering these issues, commenters are specifically asked to consider whether the current configuration results in the inappropriate transfer of risk from the retail Corporates to the wholesale Corporate. Commenters should also address whether, assuming the two-tiered system is retained, capital requirements and risk measurement criteria (e.g., NEV volatility), as well as the range of permissible investments, for the wholesale Corporate credit union should be different from those requirements that apply to a retail Corporate credit union.
Response: Once again, I don't believe that NCUA should regulate the structure of the Corporate System and the credit union market and demand should determine the structure. I believe that the Corporate System should collapse and consolidate into a one tiered system.

Once again, thank you for the opportunity to provide a response.

Respectfully,

Kyle L. Markland
President/CEO