SECURITY SERVICE
FEDERAL CREDIT UNION

April 6, 2009

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

Subj: Comments on Advanced Notice of Proposed Rulemaking for Part 704

Dear Ms. Rupp:

We have reviewed the subject proposed rules and respectfully offer our comments for NCUA consideration. We commend you for taking affirmative measures to review and address any structural weaknesses that may have contributed to this serious situation.

Separate Insurance Fund for Corporate Credit Unions

Given the current system-wide crisis caused by corporate credit unions, a separate insurance fund for corporate credit unions should be considered. Well-managed conservative natural person credit unions have diligently served members, while at the same time working to optimize a level of capital adequacy commensurate with their respective risk profiles.

Risk related to corporate credit unions is virtually impossible to consider when evaluating natural person credit union capital adequacy, especially for natural person credit unions that do not have uninsured corporate credit union share deposits or some type of corporate membership capital accounts.

With a separate insurance fund for corporate credit unions, "moral discipline" would be significantly enhanced, due to the fact that NCUA and the corporates would no longer be able to count on natural person credit unions' capital.

New Charter Types Separating Payment Systems & Investment Services

Payment services provided by corporates have been reliable and priced such that smaller natural person credit unions are able to compete for their members' business. Favorable pricing for these services can be facilitated by corporate activities related to managing the "overnight investment book of business," so requiring a separate payment services charter may not be best for natural person credit unions.

Based on our review of the corporate situation, many corporates have reasonable risk profiles and should not be required to experience the regulatory fallout related to weaknesses in other corporates, given that it is clearly possible for all corporates to have safe and sound risk profiles.

Firewalls Between Payment System Services & Other Services

We agree that establishing legal and operational firewalls between payment services and other corporate activities may be desirable, as would separate capital requirements. Before we would fully support this approach, we would need more details regarding this proposed arrangement, but it is certainly worthy of additional discussion.

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Liquidity a Core Function

This is perhaps the core function of corporate credit unions, and we believe that providing liquidity should remain an authorized activity for corporate credit unions.

If the corporates cease to fulfill this role, many credit unions will be forced to seek alternative (non-credit union) providers. These correspondent banks will undoubtedly seek to supply not only liquidity to natural person credit unions, but also other services such as checking, wire services, payments, cash management, etc. Over time, this would significantly diminish the viability and relevance of corporates. Consequently, we suggest that providing liquidity should remain a core function in an appropriately regulated environment.

National Fields of Membership

National FOM's are most certainly desirable and should not be removed or impaired in any way. Competition in correspondent banking services is driven to a large degree by scale. Furthermore, we respectfully disagree with the hypothesis that national FOM's created an overly competitive environment that led to inappropriate risk profiles in retail corporates, considering that the competitive environment includes non-corporate credit union providers. Other factors appear to have contributed to the problem which we will address in the closing of this letter.

Expanded Investment Authority

The concept of expanded investment authorities is sound, as expanded authorities were granted to each individual corporate based on a variety of factors, including expertise of management, strength of internal controls, adequacy and robustness of modeling capabilities, and higher capital requirements.

NCUA and the corporates were well-aware of credit risks related to highly structured mortgage and asset backed securities, especially privately issued mortgage related securities; however, regulations and examiner guidance may not have been strictly followed. NCUA has been aware of the credit risks associated with privately issued mortgage backs, as the current regulation requires a higher-level of diligence for non-agency securities, but regardless, allowed corporates to accumulate inappropriate concentrations of privately issued securities.

Two-Tiered Corporate Credit Union System

We see no need for a wholesale corporate that has lower capital requirements, when other corporates are likely able to serve smaller corporates just as effectively, in addition to their current natural person credit union members. We respectfully suggest that all corporates should be viewed and regulated as equals.

Capital Adequacy Requirements

Given today's crisis, higher capital requirements, specifically risk-based capital requirements, coupled with improved corporate management and regulatory oversight are clearly in order.

Furthermore, we respectfully suggest that higher "tier one" capital requirements are necessary, as the notion that natural person credit unions' net capital "insures" retail corporates, and that retail corporates' net capital "insures" U.S. Central is inherently risky and must be dismantled. Consequently, capital adequacy requirements must require each and every corporate to stand on their own.

Credit Risk Management

While lacking necessary specificity, existing regulations and examiner guidance go beyond simply reviewing Nationally Recognized Statistical Rating Organization (NRSRO) ratings, as corporates are to consider the effects of widening spreads, including credit spreads, on NEV, NEV volatility, and liquidity.

It appears that NCUA previously recognized that NRSRO ratings cannot be exclusively relied upon, as such ratings often lag deteriorating credit events. However, the regulations provided only limited guidance to corporates regarding the importance of monitoring widening credit spreads and credit enhancement erosion, as well as employing alternative modeling scenarios for NEV and liquidity projections.

Finally, in many corporates currently experiencing significant capital adequacy and NEV weaknesses, concentrations of privately issued mortgage related securities were excessive in relation to capital.

Corporate Governance

We would support the creation of minimum qualification standards for corporate credit union board members, as deemed necessary by each individual corporate credit union. Furthermore, we do not support term limit requirements, and in keeping with natural person credit union board practices, we do not support compensation for corporate board members.

In regards to possible outside director positions, we suggest that an outside director position be facilitated by regulation but not required; and we oppose disclosure of corporate executive compensation, as we do not understand how this requirement would improve corporate governance, given that adequate support for this proposed rule is not apparent. The profitability impact of salaries and benefits is sufficiently disclosed to interested parties in financial statements and call reports.

Conclusion

Natural person credit unions have come to rely upon the corporate system, and we respectfully submit it appears that, had the corporates adhered to rudimentary regulations and Corporate Credit Union Examiner Guide direction regarding widening credit spreads and related alternative modeling scenarios for NEV and liquidity projections, the severity of this situation might have been substantially reduced.

We agree that enhanced regulation of the corporate credit union system is desirable and appropriate, and we support regulatory changes that address the causes of this crisis. Specifically, today's crisis is the product of inadequate tier one risk-adjusted capital in relation to known risks related to privately issued mortgage related securities, increasing concentrations of these investments on corporate credit union balance sheets, and questionable credit risk management practices.

Thank you for considering the comments of Security Service Federal Credit Union. If you have any questions or require clarification, Chief of Staff Howard Baker or I am available at your convenience.

Sincerely,

David E. Reynolds

DAVID E. REYNOLDS
President & CEO

cc: Fred Becker, President & CEO, National Association of Federal Credit Unions
Dan Mica, President & CEO, Credit Union National Association