West Community
Credit Union

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

Electronic Transmission: **regcomments@ncua.gov**

Dear Ms. Rupp:

On behalf of West Community Credit Union, thank you for this opportunity to comment on the Advance Notice of Proposed Rulemaking.

1. The role of Corporates in the Credit Union System.

As you begin the Corporate review process, a measured and thoughtful response should be taken prior to a Corporate System restructuring. Consideration must be given to the unprecedented dislocation in the credit markets, the contributing impact that the Nationally Recognized Statistical Rating Organizations have had, and management's role at Corporate credit unions, especially at U.S. Central Corporate Federal Credit Union and Western Corporate Federal Credit Union. Natural-person credit unions must also recognize that their continual pressure for higher returns created an overly competitive environment, which may have induced the Corporates to take inappropriate risks. I suggest we all would best be served if NCUA's approach is from a "let's fix the problem and not the blame" approach.

It should not be ignored that a significant contributing cause to the severity of the current Corporate problems are due to some Corporate credit unions' management relying too heavily on the reliability of investing in AAA-rated investments without due consideration given to concentration risk. If the truth be known, I suggest that NCUA's oversight was also lacking in this area.

The willingness of natural-person credit unions to recapitalize the Corporate credit unions will not be well received, especially if their capital will be at risk and oversight and management are beyond their control. Therefore, I believe a two-model approach would meet the credit unions' need for the continuation of the services we all need and the Corporate network provides. In Model I, **Expanded Corporate Credit Union Structure,** natural-person credit unions would capitalize the Corporate. In Model II, **Pass-Through Corporate Credit Union Structure,** no additional capitalization would be required. This approach would allow the marketplace to determine the appropriate Corporate structure.

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More than you imagined

The role of Corporates would take two forms.

Model I:

Expanded Corporate Credit Union Structure

- They would continue operating Corporate payment systems as they do today (core competency).
- Natural-person credit unions that join this Corporate would recapitalize the Corporate to a minimum of 4% net worth with member shares and paid-in capital.
- The Corporate would provide investment services (704.5) as they do today with a certain net worth requirement or allow expanded investment authority with additional net worth requirements.
- Additional oversight of the investment portfolio would be required by management, NCUA and a third party consultant, such as PIMCO.
- Natural-person credit unions would earn higher earnings due to the additional risk of their capital commitment.

Model II:

Pass-Through Corporate Credit Union Structure

- They would continue operating Corporate payment systems as they do today (core competency).
- Recapitalization would occur going forward through earnings.
- Invest only in natural-person credit union-approved investments (703).
- Natural-person credit unions would be better insulated from credit-related losses of Model I Corporates.
- Income would be lower due to recapitalizing through earnings.

Liquidity and Liquidity Management

Liquidity management has generally met our needs.

An additional benefit would be some methodology to assist in the liquidity management of our business and consumer loans in the form of participation loans. This would be efficient and allow credit unions to better manage their business lending cap requirement and overall liquidity needs. With appropriate oversight this would certainly promote the collaborative spirit of credit unions.

Field of Membership

An open field of membership should be continued based on the Models listed above. Allow the marketplace to determine the appropriate Corporate network structure.

Expanded Investment Authority

Expanded investment authority in addition to permissible 704.5 investments would only be allowed in a Model I, Expanded Corporate Credit Union Structure. Additional net worth, investment oversight and concentration limitations would be required so as not to impair the net worth of Model II, Pass-Through Corporate Credit Union Structure, or their natural-person membership.

2. Corporate Capital

Corporate capital should be determined on a risk-rated basis. A natural-person's capital contribution should be based on the Corporate model (see Section 1) they choose. A natural-person credit union's capital should not be at risk if they don't utilize the Corporate network and mitigated if they have membership in the Model II, Pass-Through Corporate Credit Union Structure.

The current capital requirement of 4% seems reasonable based on the inherent risks. A twelve-month moving average of Corporate assets, which can be quite volatile month over month, seems to be a reliable denominator in the capital calculation. Membership shares, paid-in capital, reserves and undivided earnings would be appropriate capitalization funding mechanisms for credit unions choosing Model I, the Expanded Corporate Credit Union Structure.

Core Capital

In Model I, the Expanded Corporate Credit Union Structure, core capital would be membership shares, paid-in capital, reserves and undivided earnings. Core capital for Model II, the Pass-Through Corporate Credit Union Structure, would be reserves and undivided earnings.

3. Permissible Investments

In the absence of the unprecedented events affecting mortgage-backed securities, the current authority provided Corporates (704.5) is appropriate. Many credit unions lack the expertise and could not afford the cost of managing an investment portfolio on their own.

Available investments should be limited to section (703) investments for Model II, the Pass-Through Corporate Credit Union Structure, to mitigate cash flow and down side risk exposure.

4. Credit Risk Management

While I lack the expertise to understand the reliability of a Nationally Recognized Statistical Rating Organization, it appears they have contributed to the problem by providing less than reliable data. I do believe that an outside rating agency should be part of the management of a sophisticated investment portfolio. It seems prudent to have multiple rating agencies involved to assure confidence in the investment portfolio. Validation by an independent third party would also improve the confidence of a Corporate's investment portfolio as well.

5. Asset Liability Management

I can't imagine how the Corporate network could manage their balance sheet without utilizing this tool. A common sense approach that utilizes all balance sheet management tools would be the prudent approach.

6. Corporate Governance

Credit Unions would be best served by a duly elected Board of Directors whose members meet a minimum set of criteria. The assistance of an outside consultant to the Board in areas of complexity would be appropriate.

I don't support direct payment to a director but do believe that directors should be compensated for their out-of-pocket expenses.

Conclusion

The Corporate network for many credit unions maybe their only resource for payment systems and liquidity needs. Multi-billion dollar credit unions may be better served using resources outside the Corporate network. If that's the case, their capital should not be at risk.

While protecting the NCUSIF is paramount, a hasty and overly restrictive reaction to these unprecedented events will do great harm to the confidence we have in NCUA and to our very own credit unions.

A collaborative approach will in the end provide the solution that accommodates all of our needs.

Sincerely,

Gary Hinrichs

Gary Hinrichs
President/CEO