



Credit Union

Where Members Come First™

1445 West Goodale Blvd.

Columbus, OH 43212

614-462-6850

[www.members1stcu.org](http://www.members1stcu.org)

April 3, 2009

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

Re: Advanced Notice of Proposed Rulemaking to 12 CFR Part 704

Dear Ms. Rupp:

On behalf of the members, management, staff and Board of Directors of Members First Credit Union in Columbus, Ohio, I would like to take this opportunity to comment on the recently issued Advance Notice of Proposed Rulemaking (ANPR) to 12 CFR Part 704.

We commend the NCUA for allowing natural person credit unions such as ours the opportunity to express our thoughts and viewpoints as a part of this evaluative process.

Members First Credit Union is a \$46 million state-chartered, federally insured credit union with over 6,700 members serving those who live, work, worship and attend school in Franklin County. We are currently members of Corporate One FCU and use the following services that Corporate One provides: member draft clearing, image check processing, settlement services, the Alliance One ATM Network, ACH origination, ACH receipt, Check 21 (ACE), and international and domestic wire transfer services. On a very limited basis, we utilize Corporate One's investment services, and we also have a seldom-utilized uncommitted line of credit with Corporate One.

As a community-based credit union that competes primarily with many full-service large regional and national banking institutions, it is our opinion that Corporate One provides us with the ability to offer a full range of financial services to our members that we would not otherwise be able to provide in an efficient, cost-effective manner. The most striking example of these services are those that are payment-system related: the ACH, draft clearing and related services such as check imaging and Check 21. While we are sure that we could work directly with the Federal Reserve Bank in order to have access to these services, it is our opinion that as a smaller institution, we receive much better service and pricing by working with Corporate One than we would by working directly through the Fed.

As a 19-year veteran of the credit union movement, I have watched Corporate One grow and evolve over the years in terms of the scope of the products and services that they offer to natural person credit unions. This evolution has in turn allowed our credit union the vital ability to grow and evolve in order to serve the full spectrum of our members' financial needs. Thus, I undoubtedly feel that a strong corporate credit union network is vital to the continued success of our credit union and indeed, the entire credit union movement in terms of providing vital financial services to the members that we collectively serve. With that being said, the recent developments



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regarding the instability that has come to exist in the corporate credit union network leave me deeply troubled. In order for credit unions of all sizes and fields of membership to successfully serve their members, it is vital that a framework be established for a strong, healthy corporate credit union network that embraces the principles of safety, soundness and effective risk management. It is also equally vital that such a framework be developed from a regulatory oversight standpoint, for it would be very hard to deny that many of the problems that exist in the corporate credit union network today are the result of some rather serious deficiencies in terms of regulatory oversight during the past several years which allowed these problems to occur. These problems have created a rather significant mess which natural person credit unions are now being called upon to clean up by expensing significant dollars to ensure the health of the NCUSIF. While this means of addressing these problems may be the least-cost alternative to the entire credit union movement, the movement as a whole will still certainly suffer in terms of an overall weakened capital position. Therefore, it is vital that NCUA takes this opportunity to "get it right" in terms of addressing and correcting the deficiencies inherent in the corporate system, for this situation must not be allowed to recur in the future. There are many successful models in the network to point to in this regard, including Corporate One FCU. Specific suggestions for addressing these issues are as follows:

#### Structure Of The Corporate Credit Union System:

It is our opinion that no real need exists for an additional wholesale tier within the corporate credit union network. While the original purpose of the current structure of the network (the regional corporate credit unions being served by a wholesale corporate, U.S. Central) may have been to create operating efficiencies for the credit union movement, the more prominent result of this structure is that U.S. Central has been allowed to become a risk aggregator and concentrator for the corporate credit union network, and now indirectly for the entire credit union movement. If individual corporate credit unions need to work together to create more effective operational efficiencies for natural person credit unions in terms of providing vital services such as ACH processing or draft clearing, there are many other means (such as CUSOs or joint venture agreements) by which to do so. In terms of Asset / Liability management, having an entity such as U.S. Central only served to allow the upstreaming of risk to this institution, resulting in a huge concentration of what are now unmarketable securities that has placed this institution into a position of extreme capital impairment, and which in turn has placed a significant portion of the NCUSIF at risk.

#### Preservation Of The Corporate Network's Payment Processing System:

It is our opinion that the primary reason the credit union network exists is to allow natural person credit unions to provide vital services such as ACH and draft clearing to their members in an efficient, competitive and cost-effective manner. However, in many cases, that does not appear to have been the focus of some entities in the corporate credit union network during the past several years. Unfortunately, the focus of these entities seemed to be geared toward becoming an industry



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leader in terms of providing investment services to credit unions. Unlike natural person credit unions, corporate credit unions do not make loans and therefore the bulk of their assets consist of investments in various sectors of the credit markets. At the same time, there seemed to be a drive to provide superior investment products to natural person credit unions that lead to situations where risk was not effectively managed as some corporate credit unions engaged in investment practices and leverage strategies designed to maximize yield without regards to the potential risk involved. These strategies unfortunately have led to liquidity issues that could potentially put the settlement and payment systems that so many natural person credit unions rely upon at risk.

It might be useful to point out some facts from the standpoint of what the movement nationally considers to be a "small" credit union: first of all, while Members First and every other natural person credit union has many alternatives in terms of investment services for funds that we are unable to loan out (a myriad of investment brokers, vendors such as QwickRate, banks, credit unions, loan participations, as well as corporate credit unions), there are very few alternatives for credit unions who offer draft clearing and ACH services to their members besides the corporate credit union network and the Federal Reserve regional banks. Therefore, it is vital that investment practices within the corporate credit union be regulated with an eye not only towards risk management, but also towards ensuring the stability of the payment and settlement systems that are vital to natural person credit unions. Indeed, the penultimate "bad day" at Members First Credit Union would be the Friday when we would be unable to post some 1,500 direct deposit transactions consisting of our members' hard-earned wages due to a disruption of settlement in the payment system occurring totally beyond our control. The reputation risk that such a scenario presents is infinitely incalculable.

#### Regulatory Constraint Of Investment Practices

Just as natural person credit unions are required to ensure that credit risk is adequately managed in what is usually the largest class of assets, their loan portfolio, it only stands to reason that corporate credit unions must adequately manage their risk in terms of what is the bulk of their assets – the investment portfolio. Adequate portfolio diversity constraints must be mandated from a regulatory standpoint. Limits should be established in terms of both permissible investments and concentration levels of investment types. Finally, just as risk-based net worth requirements exist for natural person credit unions, so too should a similar structure, based upon the unique characteristics inherent in the corporate credit union system, be implemented within the network. It is unfathomable that an entity such as U.S. Central was allowed to achieve an extremely high concentration level of private label mortgage-backed securities on their balance sheet, yet have the lowest regulatory capitalization requirement in the credit union movement.



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In closing we appreciate the opportunity to comment regarding the future of the corporate system and understand that sound and prudent judgment dictates that NCUA and the industry carefully review the role and structure of the corporate system going forward. With that being said, we would also respectfully request some increased transparency and expediency on the part of NCUA in terms of the estimates of impairment of the National Credit Union Share Insurance Fund. As a natural person credit union, we find ourselves in the uncomfortable position of not knowing how many more "surprises" exist in the corporate credit union network. Therefore, it is vital that NCUA shares as much information as possible with the credit union movement, gets a handle on all of the issues with regards to the corporate credit union network that threaten the insurance fund, and most importantly, makes every effort to not allow these issues of NCUSIF impairment to extend beyond the end of 2009. Last but certainly not least, we commend the NCUA's proposed strategy to present legislation to Congress requesting that natural person credit unions be allowed to expense the final determination of the level of impairment of the NCUSIF over an extended period of time, thereby mitigating the sharp decrease in movement capital that is sure to occur if expenses to restore the NCUSIF fund are allocated to a single year.

We applaud the NCUA for inviting comment from natural person credit unions such as Members First as it seeks to restructure the corporate credit union network, and I sincerely hope that the collective comments gathered will be utilized in the spirit of an effort to strengthen, stabilize and ensure the safety and soundness of the corporate credit union network, thus strengthening the entire credit union movement. We encourage the agency to keep our views and needs in mind with regards to the new regulation, as the need for a healthy and strong corporate system is vital in assisting us as we serve our members.

Sincerely,

A handwritten signature in black ink, appearing to read "Gregory A. Kidwell".

Gregory A. Kidwell  
Treasurer & CEO

CC: Chairman Fryzel  
Vice Chairman Hood  
Board Member Hyland