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From: Wilson, Keith [kwilson@mriresearch.org]
Sent: Friday, April 03, 2009 6:07 PM
To: _Regulatory Comments
Subject: Keith Wilson - Comments on Advanced Notice of Proposed Rulemaking for Part 704

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

Ms. Rupp,

I serve on the Board of Directors for a small but growing credit union with just over one million dollars in assets. We have watched the events of the past few months with great concern and calculated their likely impact on our credit union. We understand the systemic nature of the current financial crisis; however, we feel that our system of cooperatives comprising the credit union movement must serve as active advocates to protect our members' interests. In that spirit, we offer these comments in the hope they will be of some use in determining the most prudent way forward. Our comments are arranged with headings matching the appropriate sections of the ANPR.

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

The corporate credit unions serve many invaluable roles that enable natural person credit unions such as ours to exist. Simply stated, we need them to continue performing their functions or we will not be capable of performing ours. We believe the payment system and the liquidity system are natural compliments to one another and to separate them artificially would be detrimental to the whole.

Field of Membership Issues.

Although competition among corporates can bring positive benefits, we suspect such fierce competition led to riskier investments. Consequently, we feel that regionally limiting fields of membership would positively impact the overall health of the system. Perhaps a good compromise would be to allow neighboring corporates to have overlapping regions, fostering some local competition without encouraging widespread competition on a national scale.

Expanded Investment Authority.

Corporates should be able to make investments not available to natural person credit unions, but any expanded authority beyond baseline levels should be accompanied by appropriate regulatory oversight and risk mitigation efforts, including increased levels of Capital.

Structure; two-tiered system.

As is appropriate in a system that has grown somewhat organically, the two-tiered structure has worked reasonably well for the credit union system. We would recommend leaving the system largely as is, with some minor adjustments to address risk and stability. It may be prudent to underpin the current structure with appropriate regulation, carefully maintaining sufficient flexibility to allow the system to self-adjust as needed. In this manner, the regulations that apply to retail corporates could be tweaked to fit the purpose of the wholesale corporate, without trying to force both entities to fit the exact same regulatory mold.

2. Corporate Capital.

We believe that corporates should be required to meet a defined level of Core Capital, perhaps 4%, excluding Membership Capital Shares. It is our opinion that MCS should once again be treated as a liability or equity position on the books rather than as capital. We also feel strongly that the capital ratio requirement should increase with increasing risk in the investment portfolio.

Core capital.

As we stated above, corporates should be required to meet a defined ratio consisting of core capital only. It would be appropriate to allow several years for the new requirement to be met, especially as emphasis should be on building capital primarily through retained earnings rather than contributed capital.

Membership capital.

Again, we feel that Membership Shares should not be considered as part of the capital pool. To the extent contributed capital is utilized, it should be a voluntary investment on the part of natural person credit unions. The incentive for a natural person credit union to make a contributed capital investment in their corporate credit union should be the potential for higher returns at a known but acceptable level of risk.

3. Permissible Investments.

The corporate credit unions fulfill several important roles that most natural person credit unions could not perform on their own. Correspondingly, they should not be treated identically to a natural person credit union in the regulations. It is appropriate that corporates have the ability to invest in vehicles not available to natural person credit unions. What is important, however, is that these investments are properly assessed for risk and that such risk is mitigated, such as by additional capital.

4. Credit Risk Management.

As we are becoming more aware, the role that NRSROs play in our financial system has become ineffective, if not counterproductive. If an investment or class of investments is large enough that potential losses could significantly impact capital, formal risk assessment should be performed by the corporate's own personnel, or by a contracting entity. We liken this to our underwriting process for member loans. We do not rely simply on a Credit Rating Agency's credit score, but on the entire body of knowledge encompassed in the loan application and our history with the member.

5. Asset Liability Management.

It would be prudent to reinstate the previous requirements for net interest income modeling and stress testing for corporates.

6. Corporate Governance.

We believe that directors of corporate credit unions should possess significant expertise and that certain reasonable standards for specific skills and training are appropriate. Additionally, adding a small number of outside directors to the boards of corporate credit unions could lend unique perspective on governance. To attract outside directors, it may be necessary to institute a modest compensation package for outside directors only. We also feel that term limits, perhaps in the realm of 9 to 12 years, could be useful. However, we feel that most important to the continuing health of the credit union system is not the exact makeup of the boards but the governance tools, including those for risk assessment and remediation, they have at their disposal.

Thank you in advance for your consideration,

Keith D. Wilson
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Scientific Research Partners Credit Union
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