



April 3, 2009

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

Subject: Comments on Advanced Notice of Proposed Rulemaking for Part 704,
Corporate Credit Unions

Dear Ms. Rupp:

On behalf of the Credit Union Association of New York, hereinafter the Association, I would like to take this opportunity to comment on NCUA's Advance Notice of Proposed Rulemaking (ANPR) regarding the restructuring of the corporate credit union system. Given the current economic conditions, the recent need for a special assessment to protect the share insurance fund and the continuing evolution of the credit union system, this proposal forces credit unions to consider core issues that will shape the industry for years to come.

Few issues have generated as much interest among my membership as this ANPR. This letter reflects a consensus developed from two roundtable meetings with small and larger credit unions, as well as the results of an interactive survey to which all of our members were encouraged to respond. As a result of this collaboration, the Association would like to provide NCUA with the following guideposts as it goes forward in developing more specific regulations for the corporate credit union movement.

- Although economic conditions have placed an enormous strain on the nation's financial system, the corporate credit union system continues to provide crucial support for the credit union industry.
- Credit unions should be given the ability to rely on individual corporate credit unions as their primary financial institution.
- We support regulations that would more closely tie capital investments by natural person credit unions in a corporate credit union as a condition for obtaining services from the corporate.
- We believe corporate credit unions should be allowed the ability to obtain a national field of membership.
- While we believe that a reduction in the total number of corporate credit unions would be beneficial, we also believe that a free market approach would be the best mechanism for determining how many corporates should ultimately exist.

Leading the Way

- Changes to corporate governance should emphasize specific qualifications and industry standards for individuals to serve and govern a highly complex financial institution. Furthermore, we recommend the NCUA Board review the concept of term limits related to corporate governance.

ROLE OF CORPORATES

Since its birth in 1968, the corporate credit union system has provided two core functions for credit unions: (1) a source of liquidity and (2) a centralized location to receive core financial services within the credit union industry. In putting together the ANPR, NCUA questions whether payment systems should be isolated and, if so, what structure for isolating these services would be best. The reality is that, if payment systems were too stringently isolated, the core function of providing particularly smaller credit unions the ability to obtain core services such as payment operations would be diminished. Too stringent a structure would do little to increase safety and soundness and might inhibit the ability of some credit unions to provide the most basic services to their members. Consequently, core services such as payment systems and overnight funds availability should be services that corporate credit unions are able to provide.

Conversely, the corporates have increasingly participated in areas which, arguably, are not essential to the provision of credit union services, such as consulting. NCUA should consider delineating core from non-essential services provided by corporate credit unions and, to the extent it feels separation is in the best interest of the industry, it is on that basis that the activities of corporate credit unions should be isolated.

CAPITAL REQUIREMENTS

Membership capital shares have become the predominant kind of capital given by natural credit unions to the corporate credit union system. In addition, under existing regulation, there is inadequate linkage tying a credit union's access to a corporate credit union's services to an investment in that credit union. As a result, the corporate credit union system is increasingly dependent on investments and short-term capital in an economic environment of low interest rates. Consequently, the Association would support regulations which more closely tie capital investments in a corporate as a condition for obtaining services from that corporate. A greater commitment to longer-term capital would provide a needed source of long-term liquidity and would decrease unnecessary competition among corporate credit unions since natural person credit unions would be limited to obtaining services from those corporate credit unions in which they have chosen to invest.

FIELD OF MEMBERSHIP

As the free market will likely dictate the number of corporate credit unions within the system, we believe this will ultimately result in further consolidation of the number of corporate credit unions. As such, we believe a national field of membership for those corporate credit unions is beneficial to provide the necessary competition that will benefit natural person credit unions.

RESTRUCTURING THE CORPORATE CREDIT UNION SYSTEM

There is a broad-based recognition that consolidation of the corporate credit union system is not only inevitable but will be beneficial for the credit union industry. Economies of scale mandate that a smaller, more centralized system is better equipped to continue to meet the liquidity needs of the industry. Our concern with the ANPR is the suggestion that NCUA should decide what number of corporates should exist. The number of corporates has already decreased from a high of forty-four to the current twenty-eight. The Association will analyze any proposal put forward regarding consolidation while remaining mindful of the belief that the free market is the best mechanism for determining how many corporates should ultimately exist. Similarly, NCUA should continue to look for ways to make corporate credit union mergers as efficient as possible.

CORPORATE GOVERNANCE

With regard to corporate governance, we recommend that NCUA examine the strength and knowledge of the boards and ensure that all directors are well qualified to govern a highly complex financial institution. If upon such a review the NCUA feels compelled to make any such changes, they should be made in a manner that ensures that corporate credit unions' board of directors maintain responsibility for overseeing the corporate system. Furthermore, we recommend the NCUA Board review the concept of term limits related to corporate governance.

CONCLUSION

The ANPR has provided an opportunity for credit unions to take a systemic look at their industry. By strengthening capital requirements, overseeing the continuing provision of core financial services and reaffirming the value of member based corporate governance, NCUA can both strengthen the corporate credit union system and the credit union movement as a whole. Thank you for the opportunity to comment on this ANPR.

Sincerely,



William J. Mellin
President/CEO