2070

NSWC FEDERAL CREDIT UNION
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April 3, 2009

The Honorable Michael E. Fryzel
Chairman, National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

The Honorable Rodney E. Hood
Vice Chairman, National Credit Union Administration

The Honorable Gigi Hyland
Board Member, National Credit Union Administration

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

Dear Chairman Fryzel, Vice Chairman Hood and Board Member Hyland,

In response to the proposed changes to Part 704 and the request for comments regarding the changes, the NSWC Federal Credit Union asks you to consider the following.

The corporate credit union network provides critical services to natural person credit unions such as NSWC Federal Credit Union. We are a $234 million credit union with over 24,800 members located throughout the world. Our main office is headquartered in Dahlgren, VA. We have three other branches—one in Fredericksburg, VA, one in Spotsylvania, VA and one in King George, VA.

Currently, our credit union uses corporate services for a variety of our processes. We contract for payment services for item processing and warehousing cleared items through Palmetto Corporate Services in South Carolina. This is an invaluable tool that both the credit union and our members have found to be convenient and cost effective. Without these tools, NSWC Federal Credit Union would be forced to look for other, less cost effective means, to deliver these important services to our members.

Our overnight account is maintained through Virginia Corporate Credit Union. This provides a reasonable return on our funds in a safe institution. We can maintain the liquidity we need by using this account. Recently, when we were building a new branch, we also used Virginia Corporate for a large line of credit that was necessary to secure a bond for the county. This was an easy process that could have become quite a burden had we not had the services of a corporate credit union available to us. We also use Virginia Corporate Credit Union for the safekeeping of our securities.

The elimination of the corporate credit unions' ability to provide the full line of account services would reduce the value of corporates and lead to greater operational costs, eliminate the options for natural person credit unions to work in a cooperative system and ultimately result in higher costs and fees for our members.

Separating corporates' ability to provide payment systems and funds management services is not practical. The members of corporates should determine which services are needed and action should be taken to identify applicable risks and appropriately mitigate those risks.

Although our credit union is not in this position, the current downturn in the economy is providing some liquidity challenges for other credit unions. Providing liquidity should remain a core function of corporate credit unions. Better access to the Central Liquidity Fund (CLF) for corporate credit unions should be a top priority for NCUA during this rulemaking process.

Competition for membership is healthy for the corporate credit union system. By maintaining open fields of memberships, better rates and expanded service offerings will continue to be available to natural person credit unions. A return to geographic fields of membership would not improve corporates' financial situations or reduce risk. Natural person credit unions should be given an option when selecting one or more corporate credit unions that can best suit their needs.

Capital adequacy for corporate credit unions needs to be redefined. Higher capital levels would provide corporates greater ability to sell securities at a loss when liquidity is needed or to hold securities that cannot be sold at fair market value and therefore accommodate Other Than Temporary Impairments (OTTI). Higher capital levels would also enable corporates to retain higher credit ratings which will help ensure the preservation of both member balances and external sources of liquidity.

Diversification on a portfolio-wide basis needs to be a hallmark for the new guidance for corporate credit unions. Corporate credit unions must be held in check when trying to tap into risky sectors for the hopes of higher returns. Higher capital requirements for corporates as mentioned above will mitigate some of the concentration risks. These risks should be monitored through the exam process on an individual corporate basis.

The requirement for modeling and stress testing of net interest income and for credit spread increases in order to identify trends and concerns should be reinstated. Corporates should also be required to obtain external validation for interest rate risk, credit risk and liquidity risk to make sure the internal evaluations are in line with the industry. Compensation and term limits of corporate directors should be determined by the credit union owners. This embraces the movement's central tenet of democratic control and allows member owners to determine what the best solution for their own corporates is.

2072

In conclusion, the network of corporate credit unions is essential to our credit union's ability to provide the best value in services and products to our members. Although there are changes that may need to be made in the corporate system, the functions of providing liquidity, investment and payment services to its member owners should continue to be paramount in your evaluation and rulemaking process.

Thank you for the opportunity to provide input on the ANPR for Corporate Credit Unions.

Sincerely,

Harry C. Ovitt
CEO

James E. Ball
Board President