OSU Federal
Your Community Credit Union®

April 2, 2009

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

RE: OSU Federal Credit Union – Comments on Advanced Notice of Proposed Rulemaking for Part 704

We would like to thank the NCUA Board for the opportunity to provide comments on the Advanced Notice of Proposed Rulemaking regarding the Corporate Credit Union Network. We have used and valued the products, education and service level that we have received from our corporates.

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

We have maintained relationships with two corporates for years. Each of these corporates has demonstrated strengths in different areas. Although we have not used corporate credit unions for all of our payment systems needs, we have relied on them for settlement services, check processing, investment safekeeping, access to liquidity and from time to time short term investments. We are confident that at our current asset size we would be able to find within a reasonable amount of time alternatives to corporate services if they were no longer available, but that does not mean that we would want to do that. We perceive that the greatest value derived from having a corporate network is the cooperative focus and industry aligned services they provide. For smaller credit unions, corporates provide a cost affective and service oriented solution. For smaller organizations it can be difficult to find responsive service if the provider typically caters to larger institutions. For us, the corporates provide competitive prices, supportive service, and additional avenues to obtain liquidity in addition to the Federal Home Loan Banks. In addition, corporates provide the ownership component that allows member credit union a voice to influence future products and services.

Whether payment systems services should be isolated from other services to separate the risks?

We believe that the combination of both payment systems and liquidity services should survive in the corporate network. Payment Systems always require a component of cash settlement. Being able to have access to investments and liquidity at the same institution where your transaction settlements are funded is very efficient, allows for improved cash management, and can be very cost effective.

Whether liquidity ought to be considered a core service of the corporate system?

Liquidity is a core service of any corporate from our perspective. In fact, the liquidity component is probably the piece that provides the most value to our organization. Access to both payments systems services and even short term investments are available without the requirement to maintain membership capital. If the corporates were no longer able to provide liquidity services, it would be hard to justify the cost of the required capital in exchange for the payment system and short term investments services. We would be forced to evaluate the need to participate in the Corporate System. The ability to have a variety of liquidity sources provides an additional level of risk mitigation for natural person credit unions.

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Should NCUA return to defined FOMs for example, state or regional FOMs for Corporates?

We strongly appose limiting FOM for corporates. Corporates will naturally develop different specialties. Credit unions deserve the ability to work with the corporate of their choosing. For credit unions that use corporates for investments, the ability to access more than one Corporate helps diversify credit risks.

Whether the need for expanded authorities should continue to exist?

We have not taken advantage of our corporates expanded powers, but have considered it from time to time. Eliminating their expanded powers will not eliminate the need by credit unions for these services. It seems that it would be important to have a channel to those services within the industry especially as the industry continues to grow.

Whether the two-tier corporate system in its current form meets the needs of credit unions?

The current two tiered system as it is currently structured is probably not the best structure for the future. Current US Central serves so few customer/members and yet has a structure that has resulted in a very large and potentially risky balance sheet. There is a lot of potential risk to be absorbed by just a few corporates. With that being said, corporates will continue to need access to some of the services provided by US Central. It would be great to be able to continue to provide those services within the industry. Maybe the use of a corporate network owned CUSO which can provide access to investment settlement, and other off balance sheet services would be useful and would not need to build a large balance sheet or hold as much risk as in the current structure.

2. **Corporate Capital. Whether NCUA should establish a new capital ratio that corporates must meet consisting only of core capital? What is the appropriate method to measure core capital given the significant fluctuation in corporate assets that occur? Whether to require that a corporate limit its services only to members maintaining contributed core capital with the corporate?**

   It seems that a restructure of the corporate capital system is appropriate. It seems appropriate that members of corporates should provide some level of core capital. In addition, we believe that some form of risk based capital measure would be appropriate as well. We would strongly support a capital system that required a base level of capital support from all members and then increased level of required capital based on level of usage especially for services such as longer term investments and loans which add to the interest rate risk as well as to the potential capital needs of an organization.

3. **Permissible Investments. Whether NCUA should limit corporate credit union investment authorities to those allowed for natural person credit unions? Whether to prohibit certain categories of, or specific, investments?**

   We perceive that the credit risk challenges within the investment portfolios were not based solely on poor judgement or too broad of regulatory privaledges. The entire financial services industry has faced the same challenge due to a combination of factors from inappropriate bond ratings, lack of disclosure regarding credit risk on underlying collateral, and the onset of the worst economic down turn in 50 plus years. It appears that the types of investments would have performed much closer to expectations if the recession had not worsened so dramatically. There is probably a need for more liquidity modeling and shock analysis to ensure the investment portfolio will performance appropriately in a variety of rate environments. Reducing the level of investment ability to the point where corporates are no longer competitive with other liquidity and short term investment providers would prove detrimental.

5. **Asset Liability Management. Should NCUA reinstate requirement to model net interest income?**

   It seems that modeling of net interest income for any financial institution would be an easy to identify best practice. We would expect that the more complex corporates should be performing this type of modeling regardless of regulatory requirement.

6. **Corporate Governance. Should NCUA establish more stringent minimum qualifications and training requirements for individuals serving as corporate credit union directors? Whether to establish a category of "outside director"? Term limits? Allow Compensation?**

   If the goal of any proposed changes to corporate governance is to prevent the corporate issues from happening in the future, we already know from experience that institutions with a paid, outside board with expertise have had the same challenges in this economy. Changes to the current structure will not be a cure for the current situation. We strongly believe that corporate governance needs to remain within the credit union industry. The board of directors should remain as volunteers with no compensation. No additional term limits or qualification standards should be required by regulation.

Other Comments

Currently the corporates only have to pay into the NCUSIF funds based on the insured share balances held by member credit unions. Credit unions have used corporates regardless of the insurance level creating quite a concentration of uninsured deposits. It is clear from NCUA's recent actions that corporates pose enough systemic risk to the industry that the NCUSIF will be used to bail them out. We believe that in addition to a potential restructure of the capital system, corporates should be required to contribute a larger amount to the insurance fund, create a share guarantee or secondary insurance as a separate part of the NCUSIF, or through some other method to reduce the risk they impose on the NCUSIF. One of the revealed faults of the current system is the disparity between the amount of contribution natural person credit unions and corporate credit unions contribute to the NCUSIF compared to the risk each brings to the fund. Though natural person credit unions do have risks, those risks appear to be offset by the amount contributed to the NCUSIF based on insured deposits. What has been discovered and should be corrected is that corporate credit unions do have significant risks to the NCUSIF fund that are not adequately addressed using the same method of contribution as natural person credit unions.

Thank you for the opportunity to comment on this very important topic.

Sincerely,

Bonnie Humphrey-Anderson

Bonnie Humphrey-Anderson
EVP/Chief Financial Officer
OSU Federal Credit Union