// MID-MINNESOTA FEDERAL CREDIT UNION

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April 6, 2009

Sent via email to: regcomments@ncua.gov

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, Board Member Hyland:

Mid Minnesota Federal Credit Union is a $200 million community credit union serving six geographical counties in central Minnesota with over 32,000 members. Thank you for the opportunity to provide feedback on this ANPR.

We believe in the cooperative spirit as well as the premise that management is charged with the responsibility and should be held accountable for results by its owner/members through a volunteer board of directors and supervisory committee. No where else can you find a structure that exists with checks and balances to monitor management than in the credit union industry. Yet we still find ourselves in a position of a substantial breakdown in structure, whether it is caused by circumstances of economic conditions or management decisions.

As management of a natural person credit union (NPCU), our knowledge of the operations of Corporate Credit Unions (CCUs) is limited. As an owner/member of a CCU, we rely on their management to make decisions appropriate for the viability and continued operations of the cooperative. Our comments below are offered at a high overview level similar to our general understanding of the structure. We believe the management of any credit union should be left to the credit union and the regulatory oversight be left to the regulators. Blurring the lines between these two areas of responsibility could have an extremely negative effect on the entire credit union industry. We ask you to exercise extreme caution in moving forward with any regulation that mandates restructuring of CCUs.

We respectfully offer the following comments in your consideration of the ANPR for 704:

The Role of Corporates in the Credit Union System

Payment Systems:
As in any business, product and service lines are offered to reach a target market. Similar to NPCUs, CCUs offer some products and services having little or no risk while other products and services involve much higher level of risk. The challenge to management is to offer different product lines that meet the needs of their target market while balancing the risks to its capital. Those that balance their risks well continue as a thriving business; while those that don't fail. Payment systems offer little risk and corresponding little reward. Corporates diversify their product offerings with liquidity options for NPCUs which requires taking on additional risk. It is the job of

management to balance those risks. Handled appropriately, CCUs are able to offer competitive pricing of payment systems in comparison to options outside of the credit union industry. Some CCUs will do this well while others fail. We must let those consequences happen. Allowing regulation to dictate what mix of product lines and services offered by CCUs is crossing the management line.

Liquidity and Liquidity Management:
While there may be more reporting requirements needed for CCUs to monitor cash flows and model threats to liquidity, we believe liquidity should remain a core service of CCUs. More importantly, CCUs must have direct access to the Central Liquidity Facility. The biggest issue CCUs are pleading for help with right now is to remain liquid in order to avoid the losses that would be recognized by trading in securities. With the CLF as part of a liquidity contingency plan, the share guarantee and respective loss estimate may have been avoided.

Field of Membership:
There is no doubt that the nationalization of field of memberships for CCUs created a competitive environment that lead to decision making which added risk in order to gain rewards to supplement pricing to attract NPCUs. Competition is the foundation in which this country is established. However in a cooperative environment, the goal is for corporate credit unions to support NPCUs and their respective memberships by providing efficient and competitive products and services that do it better than the rest of the financial services industry. Competition among CCUs for NPCU business diverts the focus away from that ultimate credit union industry support. There are plenty of other competitors in the market today that provide the services that CCUs provide. The goal of corporates should be to run operations efficiently and effectively enough that credit unions first choice is to work with the CCU system. In order to accomplish this, one corporate with regional offices, similar to the Federal Reserve Bank structure, should be established. In this type of structure, field of membership is no longer an issue.

Expanded Investment Authority:
Expanded investment authority should be afforded to CCUs that require a mix of investments to support managing their risks. The role of the NCUA should continue to be ensuring the safety and soundness of the CCU. Oversight is to make sure the CCU has qualified staff to engage in the expanded investment authority as well as proper management of how these investments will mitigate the risk of operations. An essential component to expanded investment authority is implementing a risk based capital levels to support whatever additional risk is taken.

Structure: Two-Tiered System:
Credit unions collectively are too small in the overall financial services industry to be taken seriously by the commercial banking system to obtain services. Therefore, the need for a corporate credit union structure certainty exists to cooperatively serve the NPCUs. However, the need for several corporates is no longer an effective means of serving NPCUs. As explained under *Field of Membership*, one corporate credit union with regional offices designed to efficiently serve NPCUs would be most appropriate. The focus would be on serving NPCUs with offerings to improve the credit union industry with pricing designed to beat the competition outside of the corporate credit union system through the Federal Reserve Bank, Federal Home Loan Bank and other commercial banks.

Corporate Capital

First and foremost, a tiered risk based capital requirement is a must to support the activities of CCUs. Based on the decisions made by management, the capital must support the risk inherent in the balance sheet. Without implementing a risk based capital system, the recognition of risk and any related accountability is absent.

Further, NPCUs must contribute capital to the extent that they use CCU services. If more than one CCU remains standing, the member capital requirements among them must be consistent.

Permissible Investments

As explained above under *Expanded Investment Authority*, CCUs need to have access to investment options that allow the mitigation of appropriate risks taken in operations. CCUs have different investment needs than NPCUs. Oversight by examiners focused on CCUs must continue to ensure activities maintain an appropriate level of safety and soundness.

Credit Risk Management

The rating agencies have a large hand in current market issues as well as the insurance companies. The first area of improvement is to hold the ratings agencies accountable to the issues they have brought into the market. Without proper objectivity and independence, the reliance on their ratings is detrimental to any attempt to mitigate risk to capital. In addition, consider requiring CCUs to obtain ratings from multiple agencies. While obtaining multiple ratings may prove to be somewhat cumbersome, at a minimum require independent evaluations of the risk portfolio by qualified third parties on a regular basis. Independent evaluations would provide a framework in which rating agencies would be held accountable for their risk assessments.

Asset Liability Management

Any ALM model is only as good as the assumptions made by management. These models and assumptions should be tested, challenged and validated by qualified third parties. More focus should be directed toward the worst case or unheard of possibilities to ensure the risk to capital is mitigated to sustain strength of the CCU in unprecedented times.

Corporate Governance

Currently the volunteer board of directors and supervisory committees are made up of CEOs; credit union executives who are busy taking care of their own NPCUs. CCUs need to expand the opportunities for sitting on the board to allow others in the credit union industry to bring the level of expertise needed to assist in proper board governance. In order to ensure individuals with the proper skills are chosen, minimum competencies must be established and evaluated prior to being nominated for a volunteer position. The makeup, number and term limits of board members are the responsibility of the owner/members of the CCU. The oversight for best practice can be reviewed by the NCUA. However, the NCUA could assist CCUs by allowing for reasonable compensation to a minority of board members that would provide expertise from outside of the credit union industry. These would allow the flexibility to ensure the proper mix of individuals coming together for the best interest of the CCU.

Closing

Decision making cannot be regulated. Each NPCU and CCU functions as a business onto its own with decisions made by management that react or guide the operations of the cooperative through challenging and/or exciting times. Management has its own risk tolerance and must respond based on the activities in which they choose to get involved. The results of those decisions create the success or failure of the organization. Unfortunately, CUs are now caught up in a myriad of circumstances that the entire economy is working its way through. We are now caught up in the snowball effect of consequences that must be allowed to shake out as part of the correction to the current economy. More than anything, the owners/members must step up to hold the CCUs accountable for their results. NPCUs have gotten too comfortable in believing that CCUs are inherently doing the right thing for its members. Consequently NPCUs do what many members do; rather than standing up for what is right, they simply leave and find their needs met elsewhere. Transparency to the membership is vital. Unfortunately, it may be too late for some CCUs. There is a big lesson to be learned here for both CCUs and NPCUs.

Again, thank you for the opportunity to respond to this ANPR. There is much to be done to rebalance the industry. Regulation of the NPCUs or CCUs needs to be heavily weighed to determine if it is in fact an overreaction. We respectfully ask that you perform your rulemaking with a clear boundary between regulation and management.

Sincerely,

Charles D. Albrecht

Charles D. Albrecht, CCE
President/CEO