Massachusetts Credit Union League, Inc.

April 6, 2009

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

MASSACHUSETTS CREDIT UNION LEAGUE, INC
COMMENTS ON ADVANCED NOTICE OF PROPOSED RULEMAKING FOR PART 704

BY E-MAIL ONLY - regcomments@ncua.gov

Dear Secretary Rupp:

On behalf of the Massachusetts Credit Union League ("League"), please accept this letter of comment on the advanced notice of proposed rulemaking ("ANPR") by the National Credit Union Administration ("NCUA") relative to corporate credit unions. The League is the local state credit union trade association serving 206 federal and state chartered credit unions that are federally-insured and cooperatively owned by 2.4 million consumers as members in the state of Massachusetts, and operating as part of the Credit Union National Association ("CUNA").

The League appreciates the opportunity to provide input on such an important topic at such an early stage in the administrative process. This issue is critical to the future of the industry and to public confidence in the system. The League agrees with the NCUA that significant measures must be taken. The scope and extent of the current economic cycle was not foreseen by anyone, and the corresponding loss of asset quality and capital within the corporate system was not foreseen by the NCUA. Moreover, the National Credit Union Share Insurance Fund ("NCUSIF"), solely administered by the NCUA, is not intended to cover such significant corporate credit union losses, without limitation, experienced by select corporate credit unions. It remains an unreasonable financial burden to shift these costs onto individual credit unions and ultimately onto their consumer members. The cooperative system dictates that reserves of the NCUSIF belong to natural person credit unions, similar to relationship of the reserves of natural person credit unions to their members. Capital in credit unions has been raised and preserved the long and time consuming way, through the savings of retained earnings planned by local boards of directors. Losses of the magnitude expressed to date by the NCUA cannot be absorbed in such a singular manner without detrimental and long-term adverse business impacts. The League recognizes and supports the more recent efforts of the NCUA in

845 Donald Lynch Blvd. • Marlborough, MA 01752-4704 • Tel: 508.481.6755 • 800.842.1242 • Fax: 508.481.3586

proposing alternative solutions, however, the League generally remains disappointed in the poor communication, lack of transparency and lack of a comprehensive and timely plan exhibited by the NCUA to date to preserve public confidence in the credit union system. Improved oversight, adequate resources and greater competence are necessary to oversee the corporate credit union system in the future.

A. Future of Corporate Credit Union System

Corporate credit unions have historically fulfilled an important role by providing natural person credit unions with settlement and payment services. In addition, corporate credit unions have played a major role in meeting both the short- and long-term investment needs of credit unions, and in providing short- and medium- term loans to credit unions. In all instances, the League strongly believes that the corporate credit union system should be preserved and should be required to focus on settlement, payments, short-term investments and liquidity, with adequate controls in each area.

Among these services, the core function that credit unions require from a corporate credit union system is settlement. Settlement provides the point of contact of the credit union movement with the rest of the financial system. Credit unions would be placed at a significant disadvantage if they were required to individually arrange for settlement services with correspondent or Federal Reserve banks. Settlement is a function that can be performed efficiently at scale by just a few endpoints for the entire credit union system.

Institutions that provide settlement services must also be able to provide short-term investing and liquidity. A credit union's settlement account is its overnight, interest-earning account. Access to overnight or very short-term loans is also necessary for settlement. These then comprise the core functions that the future corporate system must be designed to offer: settlement, short-term investments, and short-term liquidity. With respect to liquidity, the League supports additional authority for corporate credit unions to make loans to natural person credit unions as the nature of this product reduces reliance on investment income and other types of risky services.

Payment processing is often linked to settlement and short-term liquidity and investment, and there can be efficiencies in a corporate credit union offering various types of payment processing. The League supports payment processing as a permissible activity for corporate credit unions because it is often so closely related to settlement.

With respect to investments, the NCUA should carefully review corporate credit unions' investment authority. Corporate credit unions have traditionally held relatively broad authority to engage in long-term investments. As we have been reminded most recently, obtaining favorable yields from long-term investing, such as investments extending beyond one year in length, is not without substantial risk to the corporate credit union system. Furthermore, as the system is currently structured, losses stemming from these long-term investments can have a direct, detrimental affect on natural person credit unions and on other aspects of the corporate credit unions' core operations, including payment and liquidity services.

The League also notes that the risk to the entire credit union system associated with certain short term investment, such as asset-backed securities, and long-term investments may be too significant. Underlying collateral and issuers must have limitations. Possible long-term investments include those that have resulted in much of the corporate credit unions' unrealized losses and other-than-temporarily impaired assets.

In light of concerns about investments and concentrations of assets in a limited number of investment vehicles, the League encourages NCUA to consider the extent to which longer-term, riskier investments for corporate credit unions should be curtailed and whether alternative means for natural person credit unions to invest in some additional investments should be pursued. Finally, a consideration of the use of borrowed funds for purposes of increasing assets to drive growth and income without limitations and demonstrated management of credit risk and losses should also be reviewed.

B. Corporate Credit Union Structure

The corporate credit union system is inefficient. The number of corporate credit unions should be sufficient to promote innovation among the remaining corporate credit unions and to avoid a potential single point of failure that could arise if only one corporate credit union survives.

Another very important part of any reform of the corporate system must be accountability to the natural person credit unions. Corporate credit unions possess cooperative charters. Boards of directors must be representatives of the membership, of natural person credit union owners, of the corporate credit unions. Similar to natural person credit unions, directors of corporate credit unions must be elected by the membership, have requisite knowledge, common sense, and exercise independent judgment to effectively meet board duties and obligations. Most importantly, such boards must be held accountable. The League believes, however, that corporate credit unions should be permitted the option to have non-member directors who can contribute diverse experience and objectivity to a corporate credit union's board, if the corporate credit union's member natural person credit unions so choose.

C. Capital

Appropriate levels of capitalization are a key component of any reform. Not only are adequate levels essential, but the League also supports risk-based capital for corporate credit unions. The risk level of a balance sheet should impact the appropriate capital levels maintained. As a result, those corporates who invest and operate more prudently, who pose less risk, should be permitted to operate with lower capital requirements.

Furthermore, each credit union that utilizes a corporate credit union should be required to adequately capitalize it thereby creating an equity and ownership interest. With sufficient capital requirements and with investments restricted to only those necessary to perform short-term investing and liquidity for credit unions, the League believes that competition among corporate credit unions would provide for better service to credit unions in a context of full safety and soundness.

D. Fields-of-Membership

The League believes that the corporate credit unions that operate in the future should continue to have national fields-of-membership. Without overlapping fields of membership, there would be no competition among corporate credit unions. As with natural person credit unions, competition is good for the industry and for consumers.

The League remains committed to the belief that corporate credit unions play a vital role in the credit union movement. It is also worthy of note the valuable access to reasonably priced services for smaller credit unions that a healthy corporate credit union system offers and is irreplaceable as credit unions are accustomed to it. Thank you for your consideration of these views. Please do not hesitate to contact me if you or your staff have any questions or require additional information.

Sincerely,

Daniel F. Egan, Jr.
President

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