April 6, 2009

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 the Advanced Notice of Proposed Rulemaking for Part 704

To Chairman Fryzel, Vice Chairman Hood, and Board Member Hyland:

Thank you for allowing EDS Credit Union (EDSCU) the opportunity to make this response to the NCUA's Advanced Notice of Proposed Rulemaking (ANPR) for Corporate Credit Unions. 74 Fed. Reg. 6004 (2009).

EDSCU was chartered in 1974 and operates twelve (12) branches in four (4) states. Headquartered in Plano, Texas, EDSCU serves over 50,000 members in all 50 states and 24 foreign countries. Southwest Corporate Federal Credit Union in Plano, Texas supplies the primary services needed to serve the members of EDSCU; however, we also have associate member relationships with Virginia Corporate Federal Credit Union in Lynchburg, Virginia and Central Corporate Credit Union in Southfield, Michigan. EDSCU uses payment systems, coin and currency, investment, safekeeping, and many other services from these corporate credit unions. EDSCU members would experience disruptions and expensive alternatives if corporate credit union services had to be replaced.

EDSCU recognizes the situational severity that caused the NCUA to take control of US Central Federal Credit Union and Western Corporate Federal Credit Union; nevertheless, the NCUA board should move as quickly as possible and establish new boards at both institutions with clear operating guidelines for success. Given the financial, political, and operational magnitude of today's problems, it seems the prudent governance choice would be to delegate responsibility (with accountability) to a new group of committed industry professionals experienced at complex financial management; and then charge them (within certain guidelines) to address most if not all the problems at hand. If anything is to be learned from hindsight, it is that proper and effective corporate credit union operational changes will only be achieved when regulators and credit unions work together to produce market reforms. Major changes to the structure of the corporate credit union network should be decided by the credit unions that are member-owners of the nation's corporate credit unions (considering it is those member-owners that are "bearing the cost" of the regulatory and financial hubris that allowed the current situation to occur).

This response sets forth EDSCU's recommendations regarding the questions raised in the ANPR.

1. THE ROLE OF CORPORATES IN THE CREDIT UNION SYSTEM

Payment Systems and Liquidity Management

The operation and settlement of payments represents **<u>the</u>** core system relationship between EDSCU and our primary corporate. The economies of scale provided by the corporate system processing share drafts and using Check 21 solutions for remote deposit services represents significant competitive advantages for credit unions, and EDSCU specifically. Adjustments to management practices (e.g., liquidity, capital, and investment requirements) would go a long way mitigating any payment system risks that the technology revolution will continue to develop over the coming years.

Field of Membership

National fields of membership should be maintained as credit unions should have the ability to select from which corporate credit union or corporate credit unions they obtain products and services. Considering that there were 48 corporate credit unions in existence just a few years ago, the current environment indicates the movement is in store for more consolidation.

Expanded Investment Authority

Although senior management **<u>and</u>** the board each corporate credit union should assess the need for expanded investment authority in light of the products and services they choose to offer, it should also be imperative that the institution's regulator **<u>stay</u>** equally competent at identifying, measuring, monitoring, and reporting risks related to approved activities. Given the natural evolution of products, services, and technology, revisions to existing policies and procedures relating to investments and asset and liability management as well as other areas of operations should managed and evaluated accordingly. Regulators and credit unions should establish these new initiatives together, over time.

Structure: Two-Tiered System

Regardless of whether US Central stays in its current format or not, given the "self-insurance" aspect of the corporate environment it is imperative that the NCUA develop the capacity to measure the individual and collective financial risks in the corporate credit union system. More so than any other flaw, this inability to effectively measure corporate credit union systemic concentration, liquidity, and asset quality risk allowed problems to go unnoticed for too long.

2. CORPORATE CAPITAL

Core, Membership, and Risk-based Capital

It is clear that regulatory capital requirements must be increased for corporate credit unions; however, the method to be used should be debated and decided by all federally insured credit unions.

3. PERMISSIBLE INVESTMENTS

Although previously mentioned, permissible investments should be a function of the skill sets possessed by senior management **and** the board at each corporate credit union. Measuring, limiting, and mitigating risks at multiple levels should always take precedent over any wholesale changes to prohibit specific types of investments due to previous errors in application. "You shouldn't throw the baby out with the bath water."

4. CREDIT RISK MANAGEMENT

The NCUA should adopt further requirements regarding the use of ratings while recognizing that the rating environment of the past is just that, the past. Nevertheless, there are some smart decisions that can be made until the current regulatory process completes the expected changes associated with the NRSRO rating system. For example, when complying with concentration risks use the lowest rating available; corporate credit unions purchasing structured securities should be required to conduct and document credit stress tests; and measuring the elasticity of credit spreads as a function of liquidity and capital should be required.

5. ASSET LIABILITY MANAGEMENT

Net interest income metrics, shock testing, and economic monitoring should be required techniques adhered by all corporate credit unions.

6. CORPORATE GOVERNANCE

Given the flawed assumptions used to create the current environment, none of the suggested governance changes (e.g., well-qualified/trained individuals, outside directors, directors with term limits, compensated directors, etc.) would have prevented or shielded corporate credit unions from the effects or results permeated by today's credit market turmoil. There are plenty of qualified individuals within the credit union industry to fill corporate credit union director roles; and the right partnership with state and federal regulators would produce greater transparency preventing future occurrences.

Conclusion

EDSCU believes that although the problems in today's environment are serious, they can be overcome with the correct combination of sound regulation, smart supervision, and systemic reforms to ensure that corporate credit unions continue to provide the movement with the products and services natural person credit unions need in order to provide financial services in a cost-effective manner. We look forward to future opportunities to provide additional input.

Sincerely,

Kent L. Lugrand

Kent L. Lugrand
President & CEO
EDS Credit Union