April 2, 2009

The Honorable Michael E. Fryzel
Chairman, National Credit Union Administration

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

The Honorable Gigi Hyland
Board Member, National Credit Union Administration

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

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

Thank you for seeking input from credit unions in advance of proposed rulemaking regarding corporate credit unions. Following this introductory letter are the responses from Elevations Credit Union to the 47 questions contained in the advance notice of proposed rulemaking and request for comment. In addition to our response to the specific questions you raised in the advance notice of proposed rulemaking and request for comment, we are compelled to opine further regarding a conceptual framework for an optimal solution to this corporate credit union crisis.

The corporate credit unions were established as regional or geography-based CUSO's to provide investment, liquidity and payment system solutions to credit unions as an alternative to obtaining such services from bank competitors. In hindsight, the system would have been better designed by establishing a few large, sophisticated corporate credit unions that provide high-caliber capital market and payment system delivery services. Such corporate credit unions might have operated optimally, given recommendations we highlight below for expanded investment, enhanced governance, increased and improved capital requirements, operating with higher margins that provide a sustainable business model, and better risk management practices.

Importantly, our corporate credit unions were not operating in an optimal environment and we now find ourselves seeking solutions on how best to resolve the problem. One key consideration that is not being discussed in the advance notice of proposed rulemaking and request for comment is treating this crisis as a "capital replenishment issue" rather than a "deposit insurance premium issue". Specifically, we believe that if the structure and management of corporate credit union capital was modified to enable capital offerings (not requirements) to the credit union industry and entities outside of the credit unions (should credit unions appetite for capital investments not be adequate to adequately capitalize the corporate credit unions) and the business model simultaneously modified to create a level of sustainable earnings that enables capital growth and acceptable returns to its shareholders, then the resolution would not require a "deposit insurance expense" to natural person credit unions.

We strongly believe that natural person credit unions should not be required to provide capital to corporate credit unions based on assets, deposits or some formulaic requirement. Rather, capital should be provided by our industry, and outside of our industry if we are not able to provide sufficient capital, based on the risk tolerance of each entity. Therefore, the business model of the corporate credit unions would require scale, financial management expertise and efficacy, and sustainability. If they cannot accomplish such achievements, then our industry would be better served by using bank competitors for our investment, liquidity and payment systems. Elevations Credit Union's capital is being reduced by $14.5 million, or 20%, from the "resolution" of the corporate credit union crisis. Candidly, we believe that this matter is not fully resolved and that we will bear more costs to fully resolve this problem. And, the cost of using bank competitors for services we obtained from corporate credit unions would not have cost Elevations Credit Union $14.5 million or more. Please strongly consider treating this matter as a capital replenish issue rather than a deposit insurance premium issue to lessen the cost to natural person credit unions and improve the future viability of corporate credit unions. We are deeply concerned that if the corporate credit unions are not restructured with similar concepts presented in this letter that their future is perilous and their fate extends to the entire industry that is aligned with them.

Very truly yours,

Gerry Agnes
President, CEO
On behalf of the management of
Elevations Credit Union

Eric Jones
Chairman of the Board
On behalf of the Board of Directors of
Elevations Credit Union

Payment System

1. *Should payment system services be isolated from other services to separate the risks? If so, what is the best structure for isolating these services from other business risks?*

No. We do not foresee that separating the risk of payment system services adds value to credit unions or corporate credit unions. It's important that corporate credit unions be allowed to profitably gain scale in banking business activities that provide value to its owners. Payment system services provide such value. The risks of providing both payment and liquidity services have been proven in the banking and credit union sectors.

2. *Would it be better to establish a charter for corporate credit unions whereby a corporate credit union's authority is strictly limited to operating a payment system, with no authority to engage in other services, such as term or structured investments, or to have a separate charter available for corporate credit unions that want to engage in providing investment services?*

No. Separating the payment system services from other services such as liquidity and investment services, should not be required. Both can successfully co-exist within the same charter given appropriate risk management practices. By gaining scale in each arena, both service delivery systems complement each other, and provide sufficient earnings for a corporate credit union's long-term sustainability.

Liquidity and Liquidity Management

1. *Should liquidity be considered a core service of the corporate system, and if so, what steps should be taken, and by whom, to preserve and strengthen corporate credit unions ability to offer that service?*

Liquidity services provided to credit unions is a core service we enjoy and believe that such service should continue. Possible solutions to strengthen corporate credit unions ability to offer that service should focus on investment authority (possibly expanding current investment authority to reduce concentration risk) and enhancing risk management practices to expertly manage and mitigate risk. Although the NCUA regulates corporate credit unions, they should be the secondary source who should take steps to strengthen corporate credit unions' ability to offer that service. The corporate credit union should be the primary entity responsible for strengthening its ability to provide liquidity services.

2. *Should the NCUA consider limiting a corporate credit union's ability to offer other specific types of products and services in order to preserve and defend the liquidity function?*

The NCUA should not take a draconian perspective on limiting corporate credit unions' abilities to offer services other than liquidity services. Presently, corporate credit unions provide services that can be readily replicated by the banking sector who have proven to successfully provide such services to financial institutions for decades. We strongly believe that non-liquidity services, such as payment system services, can be effectively offered by corporate credit unions, in addition to liquidity services.

3. *What specific types of products and services should corporate credit unions be authorized to provide?*

The current products and services that corporate credit unions provide are adequate for natural person credit unions. We do not recommend limiting their authority to offer their current services. NCUA should be open to reviewing potential services that add value to the credit union system.

4. *Should the NCUA add aggregate cash flow duration limitations to Part 704 and if so, what cash flow duration limits would be appropriate for corporate credit unions?*

No. Rather, the NCUA should provide broad, yet acceptable asset-liability guidelines that enable a corporate credit union to safely operate in a dynamic market. Adding cash flow duration limitation criteria might restrict a corporate credit union too much in particular economic cycles and create unintended consequences that could prevent them from adequately growing their capital for their long-term sustainability.

Field of Membership Issues

1. *Should the NCUA require corporate credit unions to revert to defined FOMs?*

No. We believe that market forces expertly dictate the use of corporate credit union services by natural person credit unions. Arbitrary market parameters such as defined by Fields of Membership limit innovation, quality of service, price of service, and ultimately could lead to poor member value and harm the long-term value of corporate credit unions.

Expanded Investment Authority

1. *Should the NCUA modify the procedures and qualifications (such as higher capital standards) to retain expanded investment authority contained in Part 704 and if so, what should the new standards be?*

We firmly believe that risk-based capital should be a critical measurement to determine the health and long-term viability of corporate credit unions. Additionally, corporate credit unions must increase their operating margins that result in higher capital levels, in order to provide long-term sustainability. The process of determining the amount of higher capital requirements should be vetted between the NCUA and corporate credit unions prior to pronouncing proposed rules.

2. *Should the NCUA reduce the expanded authorities available and if so, which ones?*

No. To the contrary, the NCUA should consider expanding corporate credit unions' investment authority, combined with expert risk management practices, to enable corporate credit unions to diversify their risks. Presently, the composition of assets contained in corporate credit unions are heavily concentrated in the housing sector. When combined with asset concentration of natural person credit unions, the level of concentration risk seems excessive.

3. *Once expanded authorities are granted, should the NCUA require periodic requalification for expanded authorities and if so, what should be the timeframe?*

The requalification for expanded authorities might best be administered through the annual or periodic examination process, rather than establishing a separate process of oversight.

Structure: Two-tiered System

1. *Is there a continuing need for a wholesale corporate credit union and if so, what should be its primary role?*

No. We believe that the corporate credit union system should significantly consolidate in order to attain economy of scale, while raising the level of efficacy in which they operate. If there were far fewer corporate credit unions operating at far higher levels of sophistication that can readily access capital markets, there would not be a need for a separate "wholesale" corporate credit union.

2. *Should there be a differentiation in powers and authorities between retail and wholesale corporate credit unions?*

No. See question # 1. However, if two separate forms of corporate credit unions remain intact, then the powers and authorities between retail and wholesale corporate credit unions should be determined by the business needs of their owners, particularly given improved governance practices outlined in "Corporate Governance".

3. *Does the current configuration of corporate credit unions result in the inappropriate transfer of risk from the retail corporate credit unions to the wholesale corporate credit union?*

We are not aware of an inappropriate transfer of risk from the retail corporate credit unions to the wholesale corporate credit union. We do believe that expanded investment authority, enhanced risk management practices, increasing operating margins, and risk-based capital standards will dramatically improve the risk management of corporate credit unions.

4. *If the two-tiered system should be retained, should the capital requirements and risk measurement criteria, as well as the range of permissible investments, for the wholesale corporate credit union be different from those requirements that apply to retail corporate credit unions?*

No. The capital requirements, risk measurement criteria, and investment authority should be the same, as they should operate within the same economic environment. There is no need for a wholesale corporate credit union (see question # 1). However, if the two-tiered system is retained, then the permissible investments for a wholesale corporate credit union should be the same as a retail corporate credit union. Additionally, the capital requirements should be the same. However, if the investment criteria are different, then consideration should be extended to different capital requirements, providing that risk-based capital calculations do not appropriately reflect the risk profile of the corporate credit unions.

Corporate Capital

1. *Should the NCUA amend capital requirements for corporate credit unions that are more aligned with standards applied by other federal financial regulators?*

Yes. The capital reporting of corporate credit unions should strictly follow GAAP and be supplemented by minimum regulatory capital ratios such as tangible, core, and risk-based capital requirements.

2. *Should the NCUA establish a new capital ratio, that corporate credit unions must meet consisting only of core capital and if so, what would be the appropriate level of core capital? Also, what actions are necessary to enable corporate credit unions to attain a sufficient core capital; and what method should be deployed to measure core capital given significant fluctuations in corporate credit union assets?*

No. We believe that capital requirements for corporate credit unions should extend beyond core capital and include risked-based capital requirements. (See Risk-based Capital and Contributed Capital Requirements). Core capital, consisting of accumulated retained earnings and paid-in-capital, should be used to determine the health of a corporate credit union. The minimum capital level should mirror bank capital requirements that provide similar liquidity, investment, and payment system services. The business model of a corporate credit union should be altered to provide higher margins to enable corporate credit unions to readily build their capital positions to sustain their growth and long-term viability under different economic environments. Also, corporate credit unions should be permitted to obtain capital from sources outside of natural person credit unions.

3. *What is the correct degree of emphasis that should be placed on generating core capital through undivided earnings?*

This is likely one of the principal underpinnings of the current corporate credit union crisis. The corporate credit unions, who have operated with very low levels of capital and very thin operating margins, managed in a very vulnerable environment that is now readily apparent. Corporate credit unions should have increased capital requirements, expanded investment authority, and deployed a sustainable business model that provided sufficient core capital through undivided earnings. They were created to keep the "banking" business within the credit union structure. If that premise is still marketable, they must be able to provide the services in a sustainable manner through earnings and capital management. Otherwise, credit unions would be better served by allowing banks to provide such services.

4. *Should corporate credit unions limit its services only to members maintaining contributed capital in the corporate credit union?*

No. Capital should be provided to corporate credit unions based on the risk tolerance parameters by each individual credit union and other capital providing entities. Their service should be provided to all credit unions that willingly pay for them at a rate that provides sufficient operating income to keep the corporate credit union a going concern. The corporate credit union's ability to attract capital will be highly correlated to its ability to produce net earnings.

Membership Capital

1. *Should the NCUA continue to allow membership capital in its current configuration, or should the NCUA eliminate or modify certain features, such as the adjustment feature, so that membership capital meets the traditionally accepted definition of tier two capital?*

Membership capital or other forms of secondary capital should not be established or adjusted based on the level of usage of natural person credit unions. It should be raised based on the needs of the corporate credit union and their ability to provide adequate returns to the investors. Importantly, membership capital or other forms of secondary capital would seldom be required or used if the business model of corporate credit unions was altered to enable higher margins from operating income.

2. *Should adjusted balance requirements of membership capital be tied only to assets and if so, should the NCUA impose limits on the frequency of adjustments?*

No. See question #1.

3. *Should the NCUA require that any attempted reduction in membership capital based on downward adjustment automatically result in the account be placed on notice so that only a delayed payout after the three-year notice expires is permissible?*

No. See question #1.

4. *Should the NCUA impose a requirement that any withdrawal of membership capital be conditioned on the corporate credit union's ability to meet all applicable capital requirements following withdrawal?*

No. See question #1.

Risked-based Capital and Contributed Capital Requirements

1. *Should the NCUA consider risked-based capital for corporate credit unions consistent with that currently required of other federally regulated financial institutions?*

Yes.

2. *What regulatory and statutory changes, if any, would be required to effectuate such a change?*

The NCUA will need to ensure that the corporate credit unions investment authorities, combined with sound risk management practices, are deployed to enable corporate credit unions to effectively compete with banks that would operate under the same capital constraints.

3. *Should a natural person credit union be required to maintain a contributed capital account with its corporate credit union as a prerequisite to obtaining services from its corporate credit union?*

No. See question #4 under "Corporate Capital".

4. *Should contributed capital be calculated as a function of share balances or the asset size of the credit union maintained with the corporate?*

No. See question #3.

<u>**Permissible Investments**</u>

1. *Should the NCUA limit corporate credit union investment authorities to those allowed for natural person credit unions?*

No. They are different business models and require substantially different investment authorities. Aligning corporate credit union investment authorities to natural person investment authorities would not likely create a viable business model.

2. *Should the NCUA prohibit corporate credit unions from investing in certain categories, such as collateralized debt obligations, net interest margin securities, and subprime or Alt-A asset-backed securities?*

No. Rather, the NCUA should consider expanding the investment authority of corporate credit unions, ensure that they operate with expert risk management systems, and manage their sustainability through more stringent and risked-based capital requirements and periodic examinations.

Credit Risk Management

1. *Should the NCUA curb the extent to which corporate credit unions may rely on credit ratings provided by Nationally Recognized Statistical Rating Organizations (NRSROs)?*

No. The NRSROs provide one essential element in assessing risk of financial institutions. The NCUA, along with other financial regulators and Congress, should improve the evaluation techniques of the NRSROs so that they timely and better assess the risk inherent in financial institutions.

2. *Should the NCUA require more than one rating for an investment, or require that the lowest rating meet the minimum rating requirements of Part 704?*

Yes. More expert input will provide meaningful information. The key to improvement is noted in question #1.

3. *Should the NCUA require additional stress modeling tools in the regulations to enhance credit risk management?*

Yes. It is vital that expert risk management practices be deployed by corporate credit unions. Managing cash flows of securities that are impacted by credit risk via stress tests are one of many risk management tools corporate credit unions must deploy to adequately manage credit risk.

4. *Should the NCUA revise Part 704 to lessen the reliance on NRSRO ratings?*

No. The NRSROs practices should be improved as noted in question #1.

5. *Should the NCUA revise Part 704 to provide specific concentration limits, including sector and obligor limits and if so, what limits should be imposed?*

No. Corporate credit unions should operate in a flexible environment with broader investment authority, combined with stellar risk management practices to enable success, given different economic cycles.

6. *Should corporate credit unions be required to obtain independent evaluations of credit risk in their investment portfolios and if so, what should be appropriate standards for these contractors?*

Yes. The valuations should occur at least annually and most importantly, the valuation firm's recommendations for improved risk management practices should be included in all internal and external audit examinations.

7. *Should corporate credit unions be required to test sensitivities to credit spread widening, and if so, what standards should apply?*

Yes. They should and already most likely do. The analysis should be a component of their overall risk assessment practices and should not be bound by specific regulatory minimum standards. Rather, this data combined, with other risk assessment practices, should formulate their overall risk position, which should be viewed in aggregate.

<u>Asset Liability Management</u>

1. *Should the NCUA require corporate credit unions to use net interest income and stress testing monitoring tools to identify risks and what benefits, if any, would flow from these types of modeling requirements?*

Yes. Net interest income and stress testing monitoring tools (credit, spread, investment concentration, and capital) would have revealed capital deficiencies, and required more liquidity or capital, that may have prevented the level of the current corporate credit union crisis.

<u>Corporate Governance</u>

1. *Should the NCUA require minimum standards for directors of corporate credit unions to possess an appropriate level of experience and independence?*

No. The qualifications of directors should be determined by the corporate board of directors. We also believe that the composition of the directors should be a combination of outside directors that are fully independent, and also contain directors within the credit union system that are not independent, in order to gain both perspectives and diverse expertise. In addition, we recommend many improvements to the governance structure noted later in this section.

2. *Should the NCUA set term limits for directors of corporate credit unions?*

No. The elected board of directors of the owners of the corporate credit unions should determine the terms of the board of directors. This should be an ownership decision and not a regulatory requirement.

3. *Should the NCUA allow compensation for directors of corporate credit unions?*

Yes. This is one of a few fundamental flaws in the corporate governance structure. We firmly believe that adequate compensation should be provided to attract and retain the most qualified directors to manage this complex business model.

4. *Should the NCUA require greater transparency for executive compensation of corporate credit unions?*

No. Adequate compensation disclosure exists under current financial reporting requirements. Disclosure of executive compensation is not a source related to any part of this crisis, nor would it have prevented it.

5. *Is the current structure of retail and wholesale corporate credit union boards appropriate given the corporate business model?*

No. The board of directors of corporate credit unions should be comprised of both "inside" directors and totally independent "outside" directors. The vital element is that the board of directors be fully qualified and paid to manage the risks associated with this complex business model. Candidly, having total "inside" directors on a volunteer basis does not create a sustainable model of excellence.

6. *Should the NCUA establish more stringent minimum qualifications and training requirements for individuals serving as corporate credit union directors and if so, what should the minimum qualifications be?*

No and Yes. The minimum qualifications should be established by the owners. However, continuing education and training is vital to ensure the governance structure remains knowledgeable. The level of continuing education should not be more burdensome than other professional organizations (American Bar Association, American Institute of Certified Public Accountants, etc.) and should be commensurate with the level of compensation and responsibility of a director.

7. *Should the NCUA establish a category of "outside director" and if so, should there be a minimum number of outside directors?*

Yes. The NCUA should not require a minimum nor impose a maximum of outside directors. The quantity and composition of the directors should be determined by the owners of the corporate credit union.

8. *Should a wholesale corporate credit union be required to have some directors from natural person credit unions?*

Yes. We believe that wholesale corporate credit unions would be best served by a combination of directors from natural person credit unions and outside directors. The amount and composition of each should be determined by the owners of the wholesale corporate credit union.

9. *Should the NCUA impose term limits on corporate credit union directors and if so, what should be the maximum term?*

No. See question #2.

10. *Should corporate credit union directors be compensated and if so, should the compensation be limited to the outside directors only?*

Yes. See question #3. In addition, the compensation for directors should extend to both "inside" directors and "outside" directors. The responsibilities do not differ depending on whether a director is "inside" or "outside", and the compensation should not differ either.

11. *Should NCUA allow members for corporate credit unions greater access to salary and benefit information for senior management?*

No. Current disclosure requirements for executive compensation are adequate. Executive compensation did not contribute to the corporate credit union crisis and increased disclosure would not have prevented it.