

April 6, 2009

Mary Rupp
Secretary of the Board
National Credit Union Administration

Ms. Rupp:

DuPont Community Credit Union (DCCU) appreciates this opportunity to provide input to the NCUA Board regarding the Advance Notice of Proposed Rulemaking (ANPR) for Part 704, Corporate Credit Unions. DCCU is a state-chartered, federally-insured community credit union serving a six county community in central Virginia. DCCU serves and provides financial services to over 54,000 members with over \$700,000,000 in assets.

DCCU recognizes the important role corporate credit unions have played in the development and success of the credit union movement. In the thirty years since their inception corporate credit unions have provided valuable and essential services to natural person credit unions (NPCUs) of all sizes and charter types around the country and in so doing enabled NPCUs to accomplish their mission of “people helping people”. DCCU also recognizes that there have been significant changes in the financial services marketplace as a whole and the credit union movement in specific. Products and services that once were only accessible through corporate credit unions are now more widely available at competitive prices. As a result not all natural person credit unions have need of or make use of corporate credit unions to the same degree. It is our feeling, therefore, that the time has come to take a realistic look at the corporate credit union system in order to determine its viability, necessity, and impact on the nation’s natural person credit unions. Our comments below address inequities that we observe in the current corporate/natural person credit union relationship, our concerns about the equitable resolution to the current corporate credit union crisis, and our suggestions for improving the current system.

Like many in the credit union movement the senior management and Board of DCCU are concerned with the immediate and very real effects of your recent actions with regard to US Central and the NCUSIF. Naturally our attention and efforts are focused on taking appropriate and timely action and in thoroughly explaining the situation to our members. We make our comments bearing in mind that we do not have access to all of the information required to offer a truly comprehensive solution, and that our attention is somewhat divided. The restructuring of the corporate system is a complex and ongoing process that will affect all credit unions from the smallest single SEG to the largest multi-state institutions. Therefore, we encourage the NCUA to ensure transparency in the process and we look forward to future communication from the NCUA on this subject, which we hope will be clear, concise, and straightforward in its explanation of any future actions. DCCU intends to be an active participant in the comment process as the NCUA struggles to repair the corporate system.

The NCUSIF

DCCU strongly encourages the NCUA to consider separate share insurance structures for corporate and natural person credit unions. This would provide corporate credit unions the

ability to exercise greater authority to make higher risk investments without exposing natural person credit unions to that same risk – risk that natural person credit unions are by law prohibited from taking. In addition, separate share insurance systems would cure what we see to be the “participation inequity” that exists in the different levels of contributions to the Share Insurance Fund.

If the NCUA deems this recommendation not feasible, and opts to retain the single Share Insurance Fund coverage for both types of credit unions (corporate and natural person) DCCU encourages a risk-based approach to determining appropriate levels of participation in the Share Insurance Fund. Although we cannot offer a detailed explanation of how this separate share insurance system would work, we do know that the risk that is in the system now needs to be borne by the corporates and those natural person credit unions that choose to do business with them.

Investment Authority and Capital Standards

We fully support a limit on the investments that can be made by corporate credit unions. We recognize that this may lead to a necessary restructuring of the corporate system, as the corporates struggle to provide services and operate on reduced budgets. The exercise of greater investment authority has exposed *all* credit unions to greater risk. We natural person credit unions are the membership of these corporates, but that does not lessen or negate our duty of financial responsibility to our own members. It is their funds that are at risk as a result of these risky investment decisions.

If the decision is made to retain the current investment authorities granted to corporate credit unions, DCCU would like to see greater regulatory oversight of the investment portfolios of corporate credit unions. This oversight would include, but not be limited to:

- Requiring corporate credit unions to obtain and document more than one rating for each security purchased
- Requiring periodic portfolio health and securities rating reviews

We understand that most, if not all, of the securities in the U. S. Central portfolio were highly rated, somewhat conservative investments – *when they were purchased*. DCCU believes that a periodic review (and a reporting of the findings to the NCUA) of the health of the investment portfolio could have prompted actions that may have averted, mitigated, or lessened the severity of the current crisis.

In addition, DCCU strongly recommends the institution of a risk-based capital system for corporate credit unions that is consistent with other federally-regulated entities.

The Need for Restructuring and the Forces of the Free Market

As mentioned earlier in this letter, it is possible that a reduction in corporate investment authorities and other factors may lead to a restructuring of the corporate credit union environment. Several scenarios have been suggested within the credit union community in recent

months, including single focus corporate credit unions, fewer corporate credit unions, reduction in field of membership for corporate credit unions, and others. It is our opinion that the natural economic laws of a free market will determine the demand for corporate credit union services and that these laws should be given time and space to work. The remaining corporate credit unions should be in a strong position to serve their natural person counterparts, bringing us back into a healthy symbiotic relationship.

Governance

DCCU recommends requiring that Boards of Directors of Corporate Credit Unions be made up of qualified industry leaders (e.g. CFOs/CEOs of leading credit unions). Although DCCU is not altogether comfortable with the idea of extending directorships to individuals outside of the credit union industry, we do encourage a review of the standards of knowledge, expertise, and experience for Board of Director members.

Conclusion

The most important issue in addressing the ailing corporate credit union system is the removal of systemic risk from the credit union movement as a whole. Corporate credit unions are placing their NPCU membership in harm's way through the unnecessarily complicated two-tier system, their expanded and inadequately regulated investment authority, inequitable participation in the NCUSIF, and capital requirements that are not appropriate to the risk posed by their activities. In all the discussion surrounding the NCUA's recent actions with regard to US Central and other corporate credit unions one simple fact seems to have gotten lost. Corporate credit unions are still *credit unions*: not-for-profit financial co-operatives that exist to serve their membership. We cannot lose sight of the central tenet of the credit union movement – "Not for profit, not for charity, but for service". DCCU urges the NCUA to consider assisting the corporate credit union system to return to the core values of the credit union movement. In doing so you will begin to restore not only the financial health of the corporate system, but you will also restore the faith of the credit union members across the nation (both corporate and NPCU members) in this great movement.

DCCU appreciates this opportunity to comment on this very important ANPR.

Respectfully,

Gerald B. Hershey
President/CEO
DuPont Community Credit Union