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April 1, 2009

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 Advance Notice of Proposed Rulemaking and Request for Comment (ANPR) for Part 704

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

On behalf of San Diego County Credit Union, I appreciate the opportunity to comment on the NCUA's ANPR. As a member of WesCorp and a depositor in Southwest Corporate Credit Union, we rely heavily on these institutions to invest our excess liquidity and occasionally use WesCorp as a source of liquidity. Overall we feel the corporate credit union system is meeting the needs of natural person credit unions, but we recognize they need to better control risk and increase capital.

Below are our recommendations concerning the ANPR:

Payment System

The payment system should remain with corporate credit unions since it is a core business and helps to increase earnings and capital. Liquidity management practices should be enhanced for this specific line of business. Additionally, appropriate changes to reduce overall risk should be made which are discussed below and would be sufficient to retain these services in corporate credit unions.

Liquidity and Liquidity Management

Liquidity should remain a core service for corporate credit unions. Corporate credit unions should strengthen liquidity management practices and have broadened access to the CLF with a permanent increase in the maximum allowable limit.

Two Tier System - US Central

The wholesale structure of US Central results in too much concentration of risk, and inadequate capital and earnings accumulation. It should be converted to an entity that provides off-balance

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sheer services to corporate credit unions and/or to a retail corporate credit union. They should create a business plan that provides an orderly transition period.

Field of Membership

National field of memberships should exist and capital contributions should be required in each corporate credit union that natural person credit unions conduct business with. The capital requirement should be based on business volume such as total share deposits, loans outstanding, transactions processed, etc. with an appropriate minimum based on asset size. Additionally, competition between corporate credit unions would be predicted to be evened by the capital requirements and other risk mitigation measures discussed below. This would allow natural person credit unions to appropriately diversify, but still reduce over-competition between corporate credit unions.

Corporate Capital

The Core Capital Ratio should be increased to 4 percent and the Total Capital Ratio should be increased to 7 percent. Risk-based capital requirements should be implemented consistent with other federally regulated financial institutions. Corporate credit unions and natural person credit unions should have a risk-based capital requirement of 100% for capital investments in financial institutions to ensure that the credit union system can perform under severe economic stress. Credit unions should be able to comply with new capital requirements over a transition period.

The Membership Capital Shares withdrawal notice period should be increased from 3 to 5 years. Downward adjustments to Membership Capital Shares should be consistent with the length of the notice period; therefore, downward adjustments should look backward 5 years using the highest MCS balance in the calculation.

Permissible Investments

The most important recommendations regarding the ANPR concern the risk in investments and are listed below:

- Prohibit investment purchases with Sub-Prime collateral;
- Prohibit purchases of CDO investments which are unnecessarily complex;
- Prohibit investment purchases with mixed mortgage collateral grades such as Prime with Alt-A. This would make investments more comparable and predictable, and reduce the risk of market dislocation for these securities;
- Prohibit investment purchases that are not investment grade when disregarding credit default enhancements;
- Implement concentration limits by sector;
- Implement concentration limits by issuer;
- Implement concentration limits for private label securities;
- Implement concentration limits by investment grade. Additionally, disregard credit default enhancements when a credit default insurer falls below investment grade.

Risk Management

Corporate credit unions should understand the entire structure of an investment; not just the portion that they are buying. Both the entire investment and the portion being considered for purchase should be explained and documented for: the Portfolio Management Department, the Credit Services Department, and Senior Management. If either the entire investment or the portion being considered cannot be reasonably understood by the approvers or Senior Management responsible for the approvers, it should not be purchased. Stress tests should be performed for all security purchases and monitored annually. Third-party investment risk management audits should be performed annually. New investment vehicles should be prohibited unless approved by the NCUA.

Corporate Governance

Members should elect the corporate credit union boards. No outside or paid directors should be included on the board. No term limits should be put on board members, except the Chairperson position should be limited to a 5 year term. Some board members should have qualification standards such as financial or accounting degrees, designations or experience.

Thank you for the opportunity to provide our recommendations to the Board. We urge the Board to seriously consider them along with the input from other natural person credit union and corporate credit unions. We consider the recommendations concerning permissible investments the most critical and desire prudent changes that still provide corporate credit unions a viable business model.

Sincerely,

Irene Oberbauer

Irene Oberbauer
President & CEO
San Diego County Credit Union