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April 6, 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 Advance Notice of Proposed Rulemaking for Part 704

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

U.P. Connection Federal Credit Union appreciates the opportunity to provide comment on NCUA's Advanced Notice of Proposed Rulemaking (ANPR) and Request for Comment regarding the role of the Corporate Credit Union Network and its structure.

U.P. Connection is a \$33 million credit union, chartered in 1940 and located in Omaha, Nebraska. We serve approximately 5,000 members who predominately live and work in the Omaha metro area which includes Council Bluffs, Iowa just across the river from Omaha and where we also have a full service branch. In 2008, we had a return on assets of 0.85%; our net worth ratio is currently 16.82% and our loan/share ratio is 92.06%.

We believe, without the corporate credit union system many smaller credit unions will struggle to survive and many will be forced into mergers. Our credit union maintains consistently great numbers and the capital to absorb unexpected events such as we are seeing now with the corporate stabilization expense, but these are unprecedented times and many credit unions do not have the expertise, nor can they afford the required staff to efficiently handle the many services that corporates provide for them.

We, too, at \$33 million would be considered a "little guy". Typically, I don't answer the call for comments because it seems sometimes the little guys don't carry much weight in the scheme of things. But today after reading some of the comments offered by some very large credit unions, I feel I need to offer my opinion this time.

NCUA is receiving comments from credit unions calling for the liquidation of U.S. Central and the consolidation of the other corporates into as few as 3 regional corporates. Perhaps liquidating U.S. Central would relieve some of the burden on the NCUSIF fund and by extension, natural person credit unions. However, that has not been determined, only suggested. I believe the corporate credit union system will always be two-tiered. I feel there will always be a continuing and critical need for a wholesale corporate credit union. It plays a critical role as a central point for payment settlement with all retail corporates who have relationships with nearly every natural person credit union. If U.S. Central was gone tomorrow, another vendor or possibly several vendors would have to step in to replace the services provided to the retail corporates. In that scenario, the current connection that exists between all credit unions will disappear along with the many efficiencies created over the years. If that happens, what then would be the difference? We would all be on our way to becoming banks and the end of credit unions as we know them.

To consolidate the remaining corporates into so few would cause undue hardship and added expense to already struggling natural person credit unions. I believe doing so would drive more credit unions to the banks for the payment systems and services that they require at a much greater cost. Creating even five corporates, one for each NCUA region, would create much larger institutions than the current corporates. In addition, doing so would abolish the competition between corporates and also eliminate a credit union's freedom to choose the corporate they desire. Regional corporates would be a forced membership, not a choice. As a smaller credit union, I can say from experience that these small credit unions will be lost in such large institutions. As a former member of the Nebraska Corporate Credit Union, we were forced into membership with SunCorp through a merger of the two institutions. This created an institution, which to me, was too big and I felt our credit union was invisible there. My experience with SunCorp has been less than satisfactory. Their member service has been virtually non-existent and their investments are not competitive with what I am able to obtain through a broker. I have maintained my account with SunCorp only because I had already implemented bill pay with them and they would not allow settlement at any other institution.

Since that merger, I have used Wells Fargo for my correspondent account and payment services. My thought at the time was that if I was invisible at my own corporate, I may as well be invisible at a larger institution where I received better service. In the beginning, fees and services were better at Wells Fargo. However, in recent months, Wells Fargo too has changed due to economic conditions. They have eliminated our ACH settlement services and fees have increased to the point of being unacceptable. We were given very little notice of the cessation of the ACH processing, so we turned to Kansas Corporate to provide that service for us.

My point is just that if NCUA consolidates corporates into so few, you will be creating huge institutions where the little guys will be lost and will in turn be charged higher fees because they keep smaller balances, use fewer services, etc. I do not agree that the structure of the corporate system lead to the issues that required NCUA to take action. We have seen in our own community and state that the consolidation of banks does not necessarily lead to better efficiencies that create lower fees or higher rates. Quite the opposite happens with less efficiency, poorer service and more fees.

I do not want to see changes implemented that would consolidate our corporate, Kansas Corporate, that has been in existence for almost 60 years. I urge you to view each corporate as an individual

institution with its own business plan, that has its own risk tolerance, and is answerable to its membership.

It's easy for these huge multi-million and multi-billion dollar credit unions to call for the liquidation of U.S. Central and the consolidation of corporates. Do they even use the corporates? And even if they do, considering the volumes they generate, are they paying the same fees as the small hometown credit unions? I don't believe they can relate to these small credit unions. U.P. Connection is a strong, very well capitalized credit union. But many smaller credit unions are not and cannot afford the cost of services elsewhere other than their corporates. I don't want to see these smaller credit unions feel forced to go the banks or other outside entities for their payment systems, investments and services instead of corporates should they be consolidated into such huge institutions. In that case, what then would be the difference?

Separating payment systems services would increase the cost associated with providing the services and would create inefficiencies. At Kansas Corporate, there is already a separation of some payment services as the item processing, branch capture and some ACH processing is done by the Association's Service Corporation while all of the settlement activity is handled by Kansas Corporate.

As an associate member of Kansas Corporate since the end of 2008, I have come to consider Kansas Corporate Credit Union as one of our credit union's most important strategic business partners. I believe that they provide essential financial services to all member credit unions. This is especially true for small to mid-size credit unions such as us. Kansas Corporate offers affordable products and services which facilitate our ability to compete with much larger local financial institutions in our markets.

At the present time, we are in the process of moving our entire correspondent account to Kansas Corporate. Currently, they are providing settlement services (share drafts, ACH, etc.); wires (both domestic and international); and liquidity (line of credit for overnight and term borrowings). Very shortly, our member deposits, credit union check settlement, vault service and coin delivery will be provided by Kansas Corporate as well. In addition, we are also planning to utilize their ALM services in preparing quarterly analysis which is now provided by a third party vendor at a much higher cost. Although all of these services are available from other third-party vendors, the expense would be greater and we'd have far less trust in those vendors than we do with Kansas Corporate. In addition, Kansas Corporate provides the best member service I've experienced in years.

My intent is to use Kansas Corporate for all of our payment and settlement needs so that we don't have to monitor and fund multiple account relationships as we do now. All funds transfers for our members are done through Kansas Corporate at a fraction of the cost of alternative vendors and without the hassle of monitoring the security and risk exposure to the credit union if we provided this service in-house dealing directly with the Federal Reserve. The corporate's on-line banking product allows us to easily monitor the activity in our account and increase the efficiency of processing these transactions for our membership.

So, as a critical strategic business partner, we need our corporate to provide the services they do today, as well as being a catalyst for the development of future services that my credit union may

need. As I said before, our corporate has been here for a long time, relationships and trust have been built and developed with all of its member credit unions over that time and that is not easily replaced. Our biggest concern is that our corporate and the capital it has built over the years will be consolidated and we don't want to see that happen. There is no evidence, in the form of better rates or lower fees, that economies of scale benefiting credit unions has been achieved through past corporate consolidations as was my experience with SunCorp/Nebraska Corporate consolidation. We no longer want to be reliant on our banking counterparts for services that we can obtain at a much more reasonable cost from our corporate. We have obviously tried the alternative sources for the services now provided by Kansas Corporate. We like to use vendors that share common interests and objectives with our credit union and who have our best interest in mind.

Are there problems with the corporate credit union system? Yes, but we believe practically all segments of our economy have problems today. We cannot predict problems and we know of few who predicted the problems that currently impact the flow of credit and liquidity in today's markets. I think we, as an industry, need to be careful about taking action in the short-term that may cause more harm in the long-term.

I believe that corporate credit union investment powers should be greater than ours to allow them to continue to add value over what we can earn on our own. However, I believe that proper infrastructure and expertise must be in place to support access to additional expanded authorities. I also think that corporate credit unions that want to assume more risk in their investment strategies should be held to greater regulatory scrutiny and be required to maintain higher levels of capital. Therefore, I support the implementation of a risk-based capital system for corporates.

I do not believe that the corporate board structure should be changed. I disagree with the suggestion of an outside director category. Board members who are also CEOs of member credit unions are part of what has made our corporate successful. And, who better to understand the industry than credit union CEOs? Unpaid, democratically elected boards are the very foundation of the credit union movement. I don't believe term limits are necessary as members should decide who serves.

These are unprecedented times for everyone. It is this credit union's belief that not all risk can be eliminated by regulation even though the temptation is to blame, punish and make sure this doesn't happen again.

Thank you for the opportunity to provide comment.

Sincerely,

Jan Kounkel
President/CEO
U.P. Connection Federal Credit Union