Northeast
Family
Federal Credit Union

April 3, 2009

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

Re: Advanced Notice of Proposed Rulemaking to 12 CFR Part 704

Dear Ms. Rupp:

On behalf of the management and Board of Northeast Family Federal Credit Union, I would like to comment on the Advance Notice of Proposed Rulemaking (ANPR) to 12 CFR Part 704. We thank the NCUA for allowing us to comment as a part of this evaluative process. Northeast Family Federal Credit Union is $60 million in assets, has 6,583 members, and serves multiple membership groups in northeastern Connecticut.

We have been a member of Constitution Corporate Federal Credit Union from its start. Constitution is our primary financial institution and has been vital to our credit union's ability to deliver service to our members. The corporate credit union system has offered products and services that are tailored to the needs of credit unions and, in particular, small credit unions that do not have robust operational staff. This relationship helps us to offer share drafts, direct deposit (ACH), wire transfers, and other products. The ability to settle these at the corporate and invest the funds makes the corporate a key and convenient partner for many aspects of our operation. Their hands-on service has meant that we can operate with minimal operations staff.

We ask that the Board keep the needs of small credit unions in mind as they form a strategy for the future of corporate credit unions while addressing the risk that the current structure presents.

Role of Corporate in the Credit Union System

Payment systems – Corporate credit unions have ensured that credit unions of all sizes have access to the nation's payment systems. Technology has made the geographic proximity of payment systems to member credit unions irrelevant. These operations could easily be consolidated into one processor to gain economies of scale, but a better solution would be regional processors (CUSO or corporate) that would minimize the risk of

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concentration in one processor by providing redundancies. Perhaps the CUSO structure could insulate the payment systems from the risk of other systems including investments.

Liquidity and liquidity management – Liquidity services are vital to member credit unions. Corporates have been a convenient one-stop-shop for settlement, overnight and short term investments and loans. These services are at the core of the everyday relationship the owners have with their corporate.

Field of membership issues – Fields of membership should remain open. Competition among corporates has brought us better services at better prices. I remember the competition among corporates to be among the first to deliver image capture. This race to achieve the best for our members may not have happened without the motivating force of competition. Companies in competitive industries are hard to manage, but they are much more efficient. Regulation to ensure safety and soundness defines the playing field, but after that, the best products and services will come from a competitive industry. Open fields of membership also allow retail credit unions to diversify their investment risk across more than one institution within the credit union industry.

Expanded investment authority – Investment authority should be supported by an appropriate risk-based capital system and a regulatory environment to ensure safety and soundness. Regulators must ensure that oversight is commensurate with the complexity of the investments that it oversees. Only investments that regulators can capably oversee should be allowed.

Structure – two-tiered system
A regionalized system would spread the risk that is currently resident at US Central over a number of institutions, no one of which would be responsible for the nationwide payments systems as US Central currently is. The number of corporates should be based on the balanced needs to realize economies of scale and still have competition. This structure would allow for business continuity locations (by mutual agreement) and the ability to innovate, by developing products and services on a more localized basis than a nationwide institution. This is similar to the FHLB model.

Local, personal service has been the valued hallmark of our corporate credit union. To be realistic, a regionalized system would not allow the level of personal service that we currently enjoy. However, technology including webinars and web conferencing could be used to maintain a high service level and offer training.

There is no need for a two-tiered system. Spreading the nationwide book of business that is currently at US Central over a regional system will mitigate the systemic risk that US Central currently poses.

Corporate Capital
Corporate credit unions should be required to maintain capital commensurate with their risk possibly adopting the BASEL II approach. An investment in tier 1 capital should be mandatory for users of all products and services similar to the FHLB model.

Tier 1 capital investments by retail credit unions should not be capped. Larger credit unions capital investments are often capped at a maximum amount. This means that they have less exposure by percent of assets than smaller credit unions. Their use of the corporate's services is not capped, so their capital investments should not be capped.

Unfortunately, the restructured institutions may be challenged to raise capital. Credit unions might be reluctant to recapitalize a system to which they have lost capital investments and insurance assessments.

Permissible Investments, Credit Risk Management and Asset Liability Management
Commenting on permissible investment, credit risk management and asset liability management is beyond my expertise. I can comment that corporates should not be restricted to part 703 authority. If they are restricted to part 703, I do not see how they will be able to deliver meaningful value to retail credit union members.

The current situation was largely caused by credit risk coupled with event risk that was difficult to foresee. At a minimum, risk management should be expanded to an enterprise-wide risk management process that takes all risks from all areas of the institution into account.

Corporate Governance
Consistent with the cooperative philosophy of credit unions, corporate boards should be elected from member credit unions. Corporate directors should be from strong, well-run credit unions that are capitalized members in good standing. Board members should have strong experience and education. Corporates should be required to provide relevant training to the Board.

We do not support pay for corporate board members nor do we support paid outside directors. A volunteer Board should use available resources to hire necessary expertise rather than include outside expert directors. Hiring expertise gives the board the flexibility to hire the most up to date, relevant expert. Currently we are faced with an economic meltdown where investment expertise is needed, but corporates face operational, information technology, security and other systems that require different expertise.

Term limits would allow for healthy Board turnover bringing fresh ideas to the board. Over time, more credit unions would be represented on the Board, which engenders more support from member/owners and increases their knowledge of the corporate that they own. If a regional model is used, there should be sufficient volunteers that term limits could be implemented. Nominating committees should be encouraged to present slates that force elections. Competition, even for board seats, makes for better outcome.

Conclusion
Corporate credit unions have been an important part of the credit union movement for decades. The financial market crisis has been devastating to the corporate network and

has made evident the systemic risk and weaknesses in risk management. In addition to addressing risk, the restructuring of the corporate system offers the potential to answer the question: If we could build the ideal system from scratch, what would work best for retail credit unions and their members? The ideal system would not avoid risk, but would effectively manage risk of all types. The restructured system should adopt an enterprise risk management framework.

According to the corporate credit union network website, corporates were organized for the express purpose of providing low-cost financial services and competitive investment and lending rates to their member/owners. We want the restructured institutions to deliver on this purpose within the credit union movement. This will be a significant challenge if the restructured institutions are over-regulated and not able to offer competitive pricing on services and investments. In other words, the restructured business model has to be viable.

Thank you again for the opportunity to comment.

Sincerely,

Joanne S. Todd

Joanne S. Todd
President/CEO