Via E-mail – regcomments@ncua.gov

April 6, 2009

Ms. Mary F. Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-2428

Re: Community First Credit Union of Florida's Comments on Advanced Notice of Proposed Rulemaking for Part 704, Corporate Credit Unions

Dear Ms. Rupp:

On behalf of Community First Credit Union of Florida, I appreciate the opportunity to comment on your proposal and provide input into the future direction of the corporate credit union system. Community First is $1.2 billion in assets and serves over 103,000 members in Jacksonville, Florida. We currently use Southeast Corporate Credit Union and Southwest Corporate Credit Union for the following services:

- Payment processing
- Settlement
- Short-term and long-term investing
- Short-term and long-term borrowings

Although Community First has actively participated in the corporate system, given recent developments we believe it is imperative that the corporate system be restructured to reduce systemic risk, improve operating efficiency, and provide sufficient capital commensurate with the level of risk undertaken at an institutional level. Responses to each section of the Advanced Notice of Proposed Rulemaking for Part 704 are addressed in the following sections.

1. The Role of Corporates in the Credit Union System

Payment system. Corporate credit unions fulfill an important role in providing payment system services, especially to the smaller credit unions lacking the scale to access markets directly. We believe that risks can be managed effectively without creating a separate corporate charter for this purpose. This can be accomplished by aligning corporates' capital requirements with the level of risk undertaken and tightening the range and portfolio concentration of long-term investments.

Liquidity. Liquidity should remain a core component of the corporate credit union system. We support developing more sophisticated methods for measuring and managing to ensure sufficient liquidity is available to meet the needs of credit unions under a wide range of scenarios, including extreme environments like severe recession we are experiencing today. Aggregate cash flow duration limits fall short when markets are severely disrupted. We recommend focusing on measurements that relate more directly to cash flow and funding from all available sources. Furthermore, the corporate credit union system should be permitted direct access to the Central Liquidity Facility (CLF).

Field of membership. We believe that national fields of membership for corporate credit unions promote healthy competition and have the potential benefit of reducing concentrations of regional risk. We do not believe it is in the best interest of credit unions for the agency to impose defined fields of membership on the corporate system. Just as we have experienced in the natural credit union system, market forces will result in a consolidation of the corporate credit union system. This process should be allowed to proceed according to the needs of member-owners and not determined by the NCUA.

Structure: two-tiered system. We do not believe the two-tiered corporate system effectively meets the needs of credit unions in today's environment. The wholesale credit union model unduly concentrates risk and creates a single point of failure. Allowing the corporate credit union system to consolidate into fewer, more robustly capitalized entities, will provide credit unions the services they need while diversifying risk.

2. Corporate Capital

Core capital. We believe that NCUA should establish a minimum core capital ratio for corporates of 4% to be adequately capitalized and 6% to be well capitalized. The core or "Tier 1" capital ratio would consist of retained earnings plus paid in capital divided by risk adjusted assets. Reserves and undivided earnings should constitute the majority of core capital. Corporate credit unions should demonstrate through their strategic planning that their business model is capable of consistently generating operating earnings to support the majority of core capital needs. All natural credit union participants in the corporate system should be required to contribute paid in capital to the corporates in which they participate. This amount could be based on membership size or asset size.

Any changes to core capital requirements should be phased in over a realistic time period. Corporate credit unions need time to "unwind" their riskier investments and recognize the embedded losses in their portfolios. Granting sufficient time will also corporate credit unions and natural person credit unions to ride out the current business cycle and regain their positive footing from the subsequent expansion.

Membership capital. All credit unions using the services of corporates should also be required to contribute member capital shares (MCS). The amount contributed should be based on the use of the corporate services and could emulate some of the characteristics of the patronage dividend model currently used by several credit union service organizations. To stabilize the MCS capital base the callable period should be extended from three years to five years. This would make MCS eligible to be classified as "Tier 2" capital, consistent with the convention used in the banking industry.

Risk-based capital. We believe that NCUA should consider implementing risk-based capital requirements for corporate credit unions. The risk based capital formula would consider a wide range of loss scenarios and ensure a low probability that unexpected losses will exceed available capital. Liquidity risk, credit risk, interest rate risk and operating risk should be factored into this calculation.

3. Permissible investments

We believe requiring that corporate credit unions be limited to the same investments as natural person credit unions is overly restrictive and would reduce or eliminate an important element of value that corporates add to the credit union system. It is clear, however, that the investment activities of corporate credit unions must be modified to bring the level of risk within acceptable limits. This can be accomplished by creating aggregate concentration limits for asset backed securities and requiring more sophisticated models for modeling the performance of securities in various interest rate and credit risk environments. A risk-based capital system should require that corporates practicing expanded investment authorities under Part 704, Appendix B, be required to carry additional capital commensurate with the increased risk assumed.

5. Asset Liability Management

Net interest income modeling and stress testing under a range of scenarios is important to measuring and quantifying risk and should be included in every corporate credit union's asset-liability management practices. Additionally, corporate credit unions should closely monitor trends in credit risk spreads and forecast the impact of unfavorable movements on earnings and capital.

6. Corporate Governance

Community First believes that corporate credit union boards should be composed primarily of officers of natural person credit unions. "Outside" directors can expand the pool of expertise and broaden the perspective of the board of directors and should be permitted to constitute up to 20% of the board. We do not believe corporate credit union directors should be compensated for their service. While we believe it is essential to have a board of directors with sufficient knowledge and expertise, the qualifications for directors should be determined by each corporate credit union's board of directors and not dictated by the NCUA. It is questionable if imposing term limits would strengthen the governance process and could work in the opposite direction by depleting the knowledge base. Similar to our position on director qualifications, we believe this decision is best left to the board of directors.

We appreciate the opportunity to contribute to shaping the future structure of the corporate credit union system. If you have questions or need additional information regarding these comments, you may contact me at 904-371-7902.

Sincerely,

John Hirabayashi
President and CEO