From: Mark Herter [mherter@figfcu.org]
Sent: Monday, April 06, 2009 2:29 PM
To: _Regulatory Comments
Cc: Mark Herter; 'league@ccul.org'
Subject: FW: Mark Herter, CEO, Farmers Insurance Group FCU/ANPR 704 Comments

Dear Mary Rupp, Secretary of the NCUA Board

Role of Corporates in the CU System

Thanks you for the opportunity to express my opinions on the "Corporate Credit Unions" Advanced Notice of Proposed Rulemaking (ANPR).

First, let me say we need the corporate system in the Credit Union industry. To abandon the corporates would be to send us flying into the arms of profit-hungry, if not greedy, bankers and their ilk. Not all bankers are bad, but their legal structure, philosophy, and treatment of American consumers is second-class to ours. When credit unions were created, and then reinforced by the FCU Act in the 1930s, the "alternative" that we set about actualizing was indeed, and remains to this day, superior.

As the NCUA Board looks at this proposed rule for Corporates, I urge you not to over-react. I believe that most of what brought US Central's and Wescorp's portfolio values down so precipitously was largely caused by macroeconomic forces almost no one foresaw, or could do much about, including the NCUA as on-site regulator. The irrational conclusion that many investors and corporate managers and lenders came to in the early part of this decade, that real estate values would only continue to rise, is what blew up the bubble to its gigantic proportions. And when it came to lending on real estate, most of us were guilty, just to varying degrees. Having said that, however, does not mean that I don't think some reform in corporate regulation is needed. I think it's pretty obvious we have more work to do here.

I largely support the comments and supplications made to you by Bill Cheney, the President/CEO of the CA/NV Credit Union Leagues, in his letter to you today, April 6, 2009. In particular, I urge you to give strong consideration to his comments regarding the definition of total assets in determining the calculation of net worth under PCA, something that is not on the table in this ANPR, I realize.

My responses to some of your specific queries in the ANPR:

--Payment System I see no need to isolate and separate payment system services from the rest of what the corporate system provides for us. I think it's largely fallacious to presume that the offering of payment systems services to natural person credit unions (NPCUs) heightened the systemic and credit risks that have beset us today. Further, I surmise it would be hard to create and sustain a profitable business model based solely on payment system services and products. I have no perception or information to lead me to conclude that the offering of payment system services weakened the corporate system.

--Liquidity and liquidity management I do believe that helping to ensure liquidity of/for NPCUs is a role that corporates should have. I don't consider myself qualified to comment on cash flow duration limitations, but I would generally support strengthening Part 704 towards the goal of providing the NCUA, member credit unions, and the public that all aspects of liquidity, in view of potential credit risks, have been ascertained before placing investments.

--Field of membership issues I believe NPCUs should be able to join any corporate they deem most prudent. The fostering of competition among corporates is a good thing. However, I am hard-pressed to suggest to the Board how best to limit the assets (and hence systemic risk posed by any one corporate) growth of a particular corporate. Interestingly, had there been more corporates in our industry, the risks posed by any one or two of them assuredly would have been lessened, just as if there were 15 large auto manufacturers in place of the "Big 3", just as if there had been ten insurance companies in place of AIG. The NCUA and all government employees responsible for mitigating risk to our economy should seriously evaluate how to keep any institution or firm from becoming "too big to fail." Obviously, however, the NCUA did not deem Wescorp or US Central too big to fail, that is, too big to have to protect NPCUs' member capital and

paid-in-capital accounts! Clearly, the NCUA subscribes to the belief that neither corporate was "too big to fail," and that decision is now having disastrous consequences on we NPCUs.

--Expanded investment authority I believe higher capital standards would be prudent. Capital accumulation should always be a principal component of the power to take on more risk. However, I don't consider myself qualified to comment further on this issue in the corporate context.

--Structure: 2-tiered system Keep it in place. As a wholesale CU, US Central should have expanded investment authorities. With expanded authorities to take on more risk should also come stronger certification processes for its leadership and staff competencies, stronger regulation by the NCUA, and yes, higher required capital.

--Corporate capital I have no particular comments on this section.

--Permissible investments Corporates should continue to be able to place investments as they have been, that is, with greater powers than NPCUs. They have greater expertise than we do, in general, and we want to continue to look to them for that knowledge and experience. The national rating agencies would appear to be a big part of the overall problem here, however. Perhaps you should instruct the corporates that their ratings often mean little, as we have all so painfully learned.

--Credit Risk Management I believe change in this area is much needed as the NRSROs (Nationally Recognized Statistical Rating Organizations) have now, sadly, proven their unreliability. First, the NCUA and our trade associations should lobby Congress to regulate them. The absence of regulatory oversight on them is shameful, and places them on a pedestal they clearly no longer deserve, having violated the semi-sacred trust economic participants had placed in them. Second, the corporates' investment officers should be required to write a comparative analysis of all available ratings of a particular investment, and submit the analysis with recommendation to the corporate's ALCO. The Board should have its auditors then randomly review the investment placements for reasonableness, documentaion, and lastly, subject the investments to some range of credit deterioration risk stress testing. I don't consider myself qualified to recommend further, exact details here, but clearly, the risk taken must be offset by some corollary of capital, together with stronger oversight of ALCO decisions.

--Asset Liability Management I think the "mandatory modeling and testing of credit spread increases" you cite here would be prudent. The tangible benefits that I believe would flow from mandatory modeling and testing would and should accrue to the industry in the form of full disclosure for NPCUs to see, not to mention the ongoing learning and risk mitigation policies and practices that would be derived as the corporates must always seek to hone their overall mastery of balancing risk, yield and liquidity.

--Corporate governance I believe the NCUA should increase the overall qualification criteria for corporate directors, requiring them to prove their proficiency and attest to their independence. On this point of independence, I'm not sure how to re-verify it periodically, but I'm sure some means could be created to viably address this key issue. I would be OK with their compensation although it should not be material to their total gross income. I should think about $20,000 annually should be the maximum; these people should primarily be motivated to serve for reasons other than compensation; limiting compensation would assure that. And yes, having 25% to 33% of the Board be comprised of "outside directors" should go far to ensure the injection of diverse viewpoints which would tend to enhance their collective ability to decide wisely.

I hope that my views above are found to be somewhat helpful for you as you deliberate on how to best revive our industry's economic vitality and, as important, the public trust in credit unions.

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