From: Hicks, Jim X. [jhicks@jscfcu.org]
Sent: Monday, April 06, 2009 12:10 PM
To: _Regulatory Comments
Cc: Brown, Michael
Subject: Comments on Advanced Notice of Proposed Rulemaking for Part 704
Attachments: Jim Hicks Compliance Officer.vcf

April 6, 2009

National Credit Union Administration
%%Email To: regcomments@ncua.gov%%
1775 Duke St
Alexandria, Virginia 22314

Re: ANPR 12 CFR Parts 704
Corporate Credit Unions

Dear Ms. Mary Rupp:

I am writing this letter in response to the agency's request for comments on the Advanced Notice of Proposed Rulemaking (ANPR). Consideration must be given to address deficiencies given the current regulatory schema. First, allow me to thank you for the opportunity to express my deep concern about the systemic risk imposed on the credit union movement by questionable activities undertaken by Corporate's over the last few years. Clearly, given the volume of shared losses, absorbed by natural person credit unions, changing regulatory guidance is appropriate, if not a *mandate*.

The proposed change, as outlined in the ANPR, raises a labyrinth of possible solutions to mitigate future risks. Various alternatives and regulatory strategies should be pursued to address contingent threats so that never again will excessive risk taking threaten the movement. No doubt, the exposed risks will be evaluated, discussed, and even cussed over the next few years. These deliberative and strategic activities will bring a resolution that must be definitive. The regulatory schema must be changed to address risks festering in the last few years while arbitrage and securitization was all the rage.

Given the breadth and extent of the issues uncovered during this liquidity crisis no one commenter can possibly expect to respond, in such a short time period, to every issue. Instead, I will focus my comments on strategic failures that lead up to the debacle faced today. The failures resulting in the current crisis can be summarized into these broad categories:

- Governance: Structural weakness in the makeup, composition, and qualifications of directors and committees. The oversight deficiency is evident by the losses imposed on the insurance fund and industry. Generally, either low probability events where significantly discounted or liquidity plans failed to address high impact market disruptions. Independently, or in conjunction with each other, these deficiencies resulted in the failure to identify concomitant risks with the concentration of earning assets and liquidity sources;

- Risk Management: Ineffective identification, evaluation, and response planning to low probability high impact operational, market, or regulatory events. An example of this occurred in 2006 when investor's appetite for MBS and CDO securities started to wane and overexposed positions became evident;

- Transparency: Internal, regulatory and other external reporting deficiencies prevented dissemination of critical information to interested parties who may have identified the level of risk concentrated on Corporate's balance sheet;

- Regulatory Guidance: Maintaining the delicate balance between fostering innovation and restricting excessive risk is a difficult task for the NCUA. None-the-less the failure of Corporate's to identify liquidity risks in a timely manner and lax oversight by the Board of Directors to intervene magnified pending losses from balance sheets leveraged up through borrowed funds provided, in part, by entities outside of the credit union movement.

The failures outlined above significantly impact all credit union's including JSC FCU. Strategically, by adopting strategies to address failures outlined above natural person's credit union can:

- Confidence that investments purchased by Corporate's will meet liquidity needs not focusing solely on earnings;

- Assured that Corporate credit union's will implement risk management practices better prepared to address market disruption events;

- Pride in knowing the governance structure includes segregation of responsibilities such as the Board of Directors and the Supervisory Committee;

- Principally, all natural person credit union's are looking for is a safe place to manage excess liquidity without undue concerns of concomitant exposure and systemic risks.

Sincerely,

Michael G. Brown
President
JSC FCU