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Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
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Submitted By: e-mail to regcomments@ncua.gov

Dear Members of the Board,

Thank you for the opportunity to comment on the role corporate credit unions currently provide for a natural person credit union like Central Communications in Independence, Missouri. My comments reflect the experience I have gained in managing a medium sized natural person credit union for 22 years and spending nearly 5 years during the early 1980's at U.S Central Credit Union.

Missouri Corporate Credit Union (MCCU) is a state-chartered, federally-insured corporate credit union and has been our primary and often our sole source for correspondent banking services during my 22 years of credit union management. The daily operations would be much different and more difficult for all small to medium size credit unions without a regional corporate credit union like Missouri Corporate. My credit union would be adversely impacted if a regional corporate credit union like Missouri Corporate were not available to handle our needs. Without a corporate credit union network, we would be forced to deal directly with one or more larger banks who would view us as competition and there "for profit" status would increase our cost for settlement, liquidity and short term investments greatly.

Over the years, Missouri Corporate Credit Union has allowed us to focus on serving our members better while receiving excellent service, competitive rates and extremely helpful cash management services. We do not on a daily basis have to constantly monitor our overnight position. Until recently we could count on a very good rate on our excess overnight funds and should we run short due to cash outflows, we could access our line of credit until new liquidity arrived or investments matured at a very easy and cost effective manner. Credit unions our size and smaller do not have the resources to constantly monitor our overnight position and make immediate adjustments. In addition, our line of credit comes to us from Missouri Corporate at a competitive rate with no commitment fees or

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hidden expenses such as non earning assets or compensating balances that often occur in banking relationships.

Missouri Corporate has been always been a "pass-through" corporate. That is, they invest almost exclusively in U.S. Central Federal Credit Union (US Central). The results are a smaller staff, low operating costs, and minimal fees. This strategy enabled them to build stronger capital and at the same time provide competitive returns on investments and competitive pricing on products and services to us. This capital is what has allowed Missouri Corporate to absorb more of the losses from U.S. Central's conservatorship which has reduced our losses. Up to this point, those corporate credit unions that relied on U.S. Central have done better over the years by not duplicating services that are already available by U.S. Central. I strongly feel that had all corporate credit unions operated like Missouri Corporate, we would not be in the situation we are in today!

Supporting that statement is a long history of the Corporate Credit Union network that goes back to the late 1970's. When I joined U.S. Central in 1980, we had three corporate credit unions that were having problems – Oklahoma, Tennessee and Georgia. Like today's problem they were all investment related due to purchases of mortgage back securities. They had purchased GNMA's which unlike today's credit risk were underwater due to interest rate risk. Next, we had Utah Corporate with an inexperienced manager that allowed a broker to create a short position that due to market value changes could not be covered without wiping out their reserves. Similar to today's situation, by borrowing the bond with help from U.S. Central, Utah was able to delay covering this position until the rates lowered and the loss became manageable. Later came the Penn Square Bank failure that impacted several corporate credit unions again due to investing on their own outside of U.S. Central Credit Union. Most recently Cap Corporate and the forced sale of investments by NCUA caused significant losses for their members. These like the others above would not have occurred had they acted as a pass through to U.S. Central and not taken on more risk for their member credit unions.

As the trend toward regionalization of some corporate credit unions occurred through mergers that had NCUA's blessings, competition grew within the network and as more and more corporate chased deposits, they took on increasing amounts of risk. Unfortunately, this time U.S. Central fell into this same trap and took on more risk that ultimately created today's problem. Now the question is how do you "fix" the problem?

I don't think having several large corporate credit unions competing on a nationwide basis is the answer. In fact that is exactly what got us into today's mess with Wes Corp, Southwest, Members United and others to a lesser degree all competing with U.S. Central for business by taking on more risk. I would suggest that a more efficient structure would be either U.S. Central with a number of branches located throughout the United States or allowing those corporate credit unions who want to act as a "pass-through" to continue to work with U.S. Central to provide us with the services that small and medium credit unions need on a daily basis. This would be the best choice in my mind. Those corporate credit unions who do not wish to participate could become a CUSO under one of the "giant" credit unions or become a bank and compete for our business just like any other bank does. What we don't want is for them to be able to continue taking more risk for the movement while falling under the NCUA and Corporate Credit Union Network. Finally, U.S. Central will need to be required by NCUA to go back to the Matched Book concept which helps to eliminate the interest rate and though regulation restrict the concentration risk that also played a role in today's problem. We need their payment services to remain intact as well as a safe and secure place for credit unions to invest.

In closing, we need a strong Corporate Credit Union Network if we desire to keep the small to medium credit unions successful. I have recently read numerous calls from large credit unions urging NCUA to eliminate the Corporate Credit Unions. That works fine for them since they have both the size and staff to deal directly with banks and brokers. Credit Union's my size and smaller don't have those resources and our numbers will rapidly be reduced. I strongly believe that once the smaller credit unions are gone, the big question will be what is the difference between a bank and a credit union? Without small credit unions fighting the battle over taxation and the political clout they can bring out, our credit union movement will look just like any other bank. Once that occurs, the question will be why not just all become banks? Then NCUA won't have a "movement" to insure and regulate.

I would like to thank you for the opportunity to comment on these important issues facing the entire credit union movement. Please don't let the louder voices of a few large credit unions drown out the needs and desires of the smaller credit unions that are often too busy serving members everyday to have the time to voice their needs just as loud.

Sincerely,

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