From: Bob Steeves [ceo@ectcu.org]
Sent: Monday, April 06, 2009 1:56 PM
To: _Regulatory Comments
Cc: pgentile@njcul.org; ssouders@midatlanticcorp.org
Subject: ANPR - Corporate Credit Unions

I manage a modest sized credit union ($11.7 million in assets, 3,626 members as of 2/28/09). My only Corporate Credit Union relationship is with Mid-Atlantic Corporate FCU (MACFCU). I had used a different Corporate in the past, but found MACFCU's service and pricing much better.

For clarity, I will follow the topic outline established in the ANPR.

1. **The Role of Corporates in the Credit Union System.**

Payment system

Being able to deal with a single point of contact for these services makes my life easier. Given the need to manage liquidity on a daily basis, it's handy to have the ability to obtain liquidity as well as place excess liquidity through the same institution that settles my payments.

I don't separate my operational risk from my investment risk because frankly I don't think I should have to. NCUA insisted, some years ago, that it be the regulator for all of the all Corporate Credit Unions. The agency's chosen role should have been all that any credit union CEO needed to document there would be no operational risk in a Corporate Credit Union.

I don't think it makes sense to restrict Corporates in this area. It probably does make sense, however, to encourage the Boards of the Corporates to aggregate their payment processing operations to take advantage of greater economies of scale.

Liquidity and liquidity management

Liquidity was once and should again be **the** core service of the corporate system. The circumstances that led to the current liquidity crisis are so far removed from their ordinary and fundamental business operations that regulating to prevent such a crisis will make it impossible for a Corporate to function. With 20-20 hindsight, it's clear that regulations adopted to prevent another Interest Rate Risk debacle after the Savings and Loan crises actually gave rise to some of the practices that have caused the current crisis. Some other mechanism, such as access to the CLF for Corporates, makes more sense.

Field of Membership Issues

The national FOM is not the problem. Competition among the Corporates is not the problem. It's been beneficial in bringing higher levels of service to Credit Unions in states where a relatively smal Corporate could not deliver these benefits without taking undue risks to support the resulting costs. The Corporates did NOT take undue risk to be more competitive with each other. They have had to be competitive with non-Credit Union, for-profit vendors, for decades. Changing FOM requirements will not protect against a catastrophic market collapse. In fact, membership restrictions are more likely to encourage problems from lack of geographic economic diversity.

Expanded Investment Authority

The need for expanded authorities does continue to exist. NCUA's oversight in this area is adequate. Stricter regulation will not protect against a catastrophic market collapse. Restrictions which prevent diversification are more likely to create riskier investment portfolios at any point in time.

Structure; two-tiered system

The "retail" Corporates do not need a "wholesale" Corporate. Eliminating the second tier would likely cause some smaller Corporates to merge rather than develop the investment expertise they now seek from US Central. This would not be a bad thing. The best would and should thrive.

Having a two tier system also dilutes capital at both levels, which does not serve any stakeholders: the corporate system, the natural person credit unions, the NCUSIF, or the consumer.

2. Corporate Capital.

At first blush, risk-weighted asset classifications and changes which would bring the corporate capital requirements more into line with standards applied by other federal financial regulators sounds sensible to me. But consider this: there are unhealthy financial institutions of every type right now. Didn't their regulations allow for that to happen? I think NCUA should learn from the mistakes of other financial institution regulators, and create new standards that better protect the Credit Union system and it's 80 million member-owners.

Core capital

Most of this is beyond my ability to express an informed opinion, but requiring that a corporate limit its services only to members maintaining contributed core capital with the corporate brings back bad memories of the regulator-triggered failure of CapCorp. I think it
such a requirement might make a Credit Union think about avoiding use of the Corporate system altogether. Differentiated pricing for core-capital contributors makes more sense to me, as does more transparency in reporting how each Corporate manages risks.

Membership capital

Putting Credit Unions more on a par with other financial institutions seems to make sense, until you reflect on how badly other financial institutions have fared recently. Again, learn from the mistakes of other financial institution regulators, and create new standards that better protect the Credit Union system and it's 80 million member-owners.

Risk-based capital and contributed capital requirements

Yet again, being consistent with what is currently required of other federally regulated financial institutions seems to make sense until you reflect on how badly other financial institutions have fared recently. Again, learn from the mistakes of other financial institution regulators, and create new standards that better protect the Credit Union system and it's 80 million member-owners.

3. Permissible Investments.

NCUA should not limit corporate credit union investment authorities to those allowed for natural person credit unions. To be able to provide an attractive rate and earn a profit, Corporates have to have broader investment authority than natural person credit unions.
Corporates have access to greater investment expertise, one of the benefits of being an aggregator. Investment

authority should be limited by factors affecting risk, not by type of investment vehicle. The market is constantly inventing new investment vehicles, so regulation by type would be inefficient as well.

4. Credit Risk Management

Here again, stricter regulation will not protect against a catastrophic market collapse. I think stricter regulation of NRSROs will come about because the entire market needs it. Beyond that, I think there are lessons learned here, and would expect every Corporate to have in-house investment evaluation expertise in the future.

5. Asset Liability Management.

Let me get this straight.... The Corporates don't have to have an ALM Policy and risk guidlines? And I do? Perhaps I misunderstood the comments about NII modeling and stress testing, but clearly the Corporates need to do far more rigorous ALM than I do as a relatively small natural person credit union. If it takes a regulation to get them to do it, there should be a regulation.

6. Corporate Governance.

Allow each Corporate to decide whether to permit the election of outside directors, how, if at all, to compensate directors, and what term limits to impose. I believe that full disclosure of these policies, and of training and qualifications of directors is all that's needed. These are all questions I will want answered when I evaluate a Corporate.

In conclusion, I think many credit union managers and boards took the corporate system and the adequacy of NCUA's oversight for granted. Now we know we need to ask for and evaluate a lot more information when we select financial partners. I do not favor forced merging of Corporates, or restricting what Corporate I can use, whether by geography or some other criterion.

Sincerely,

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