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April 6, 2009

NCUA Board
Via email: regcomments@ncua.gov
Chairman, Michael E. Fryzel
Vice Chairman, Rodney E. Hood
Board Member, Gigi Hyland

RE: Comments on the Advanced Notice of Proposed Rulemaking for Part 704

To Chairman Fryzel, Vice Chairman Hood, and Board Member Hyland:

Jax Metro Credit Union is honored to offer the following comments relating to NCUA's Advanced Notice of Proposed Rulemaking (ANPR) for Corporate Credit Unions. Our comments to the questions are indicated in red and capitalized.

Jax Metro Credit Union is a Florida state chartered institution organized in 1935 to serve municipal employees in the City of Jacksonville Florida. We have been a federally insured institution since the Florida Credit Union Guaranty Fund was dissolved. We currently serve approximately 4500 members with assets of thirty-two million. Our primary membership base is in the City of Jacksonville, Duval County, Florida.

In regard to the corporate credit union, NCUA has identified several areas in which it feels re-evaluation is necessary. The primary concerns addressed in the ANPR are: 1) the role of the corporate in the CU system; 2) corporate capital; 3) permissible investments; 4) credit risk management; 5) asset liability management; and 6) corporate governance.

1) **Role of Corporates in the Credit Union System**
   a. Payment Systems: Currently, payment services offered by corporate are coupled with other services.
      i. *Should payment services be isolated from other services to separate the risks? If so, how would this best be achieved?*

YES, JAX METRO CREDIT UNION BELIEVES ***PAYMENT SERVICES COULD BE SEPARATED***. THE INVESTMENT ACTIVITIES AND THE PAYMENT SERVICES BOTH HAVE VERY SPECIFIC OBJECTIVES. CREDIT UNIONS SHOULD BE ABLE TO INDEPENDENTLY EVALUATE RISK INHERENT WITH EACH OF THESE CRITICAL AREAS. CREDIT UNIONS DO NOT GLOBALLY USE BOTH THE INVESTMENT AND PAYMENT SERVICES OF THE CORPORATES AND THEREFORE SHOULD NOT ASSUME THE RISK FOR SERVICES THEY DO NOT USE. AS THESE SERVICES ARE ISOLATED FROM EACH OTHER, IT WILL ALLOW THEM TO BE PRICED TO SUPPORT THEIR INDEPENDENT ACTIVITIES WHILE ALSO PROVIDING A MORE DIRECT MEANS FOR CREDIT UNIONS TO EVALUATE RISKS. AS

ISSUES CONTINUE TO UNFOLD, NCUA HAS COMMENTED IN THEIR TAKING U.S. CENTRAL AND WES CORP INTO RECEIVERSHIP THAT IT WAS TO PROTECT THE PAYMENT SYSTEMS. CREDIT UNIONS CANNOT RISK THE FAILURE OF THEIR PAYMENT SYSTEMS TO THE PERFORMANCE OF INVESTMENTS.

IN ACHIEVING SEPARATION, CONSIDERATION MUST BE GIVEN TO ELIMINATING ANY "SINGLE POINT OF FAILURE." TO THAT END, ONE SINGLE CORPORATE PAYMENT SYSTEM WOULD BE TOO RISKY; RATHER A GROUP OF INDEPENDENT, YET ***COOPERATIVE CORPORATES*** STRIVING TO PROVIDE PAYMENT SERVICES WOULD BE MORE PRACTICAL.

b. Liquidity and Liquidity Management: A vital role of corporate is to fulfill the liquidity needs of their members. Thus, it is crucial that corporate properly consider their cash flow needs.

PAYMENT SYSTEMS AND LIQUIDITY MANAGEMENT SHOULD BE THE PRIORITY FOR CORPORATES. CORPORATES SHOULD GAIN CONTINUED ACCESS TO THE CENRAL LIQUIDITY FUNDS.

Should liquidity be considered a core service of the corporate system? If so, what steps should be taken, and by whom, to preserve and strengthen corporate' ability to offer other services? ANSWERED ABOVE

c. Field of Membership Issues: NCUA is questioning whether the allowance of national FOMs for corporate has resulted in significant, and unforeseen, risk taking.

i. Should NCUA return to defined FOMs, for example, state or regional FOMs?

NO, DEFINING FIELDS OF MEMBERSHIP WILL ONLY LIMIT COMPETITION. COMPETITION HAS ALWAYS BEEN GOOD. IN A NETWORK OF COOPERATIVE CORPORATES, CORPORATES WILL COMPETE WITH EACH OTHER BASED ON SERVICE, EFFICIENCY, AND INNOVATION. PRICE COMPETITION WILL CONTINUE WITH OUTSIDE INDUSTRY ENTITIES SUCH AS THE FEDERAL RESERVE BANK. THE PRIORITY FOR CORPORATES WILL THEN BE IN MAINTAINING EFFICIENT INDUSTRY PAYMENT SYSTEMS AND THE RELATED LIQUIDITY TO THOSE SERVICES.

d. Expanded Investment Authority: Currently, corporate meeting certain criteria can qualify for expanded investment authority; such as authority to purchase investments with relatively low credit ratings than otherwise permissible under the rule.

i. Does the need for expanded authorities continue to exist? If so, should NCUA modify the procedures and qualifications, such as higher capital requirements? If so, what should the new standards be?

CREDIT UNIONS HAVE ALWAYS LOOKED TO THE CORPORATES AS THE "SAFE INVESTMENT" OPTION. CORPORATES ARE TREATED FAVORABLE IN FLORIDA STATUTES AND ARE THUS EXEMPT FROM INVESTMENT CONCENTRATION RULES. SUCH FAVORTISM HAS GIVEN CUs A FALSE SENSE OF SECURITY WITH THEIR CORPORATES. AS LONG AS CORPORATES ARE DEEMED "SECURE AND FAVORABLE" FOR CREDIT UNION INVESTING, THEY SHOULD NOT BE GIVEN EXPANDED AUTHORITY THAT COULD EXCEED THE AMOUNT OF THEIR INTERNAL CAPITAL STRUCTURE.

ii. Should NCUA reduce the expanded authorities available? If so, which ones? Alternatively, should any of the limits in existing expanded authorities be reduced or increased? If so, which ones? Once granted, should NCUA require periodic requalification for expanded authorities? If so, what should be the timeframe?

GENERALLY THESE EXPANDED AUTHORITIES ARE CLEARLY NOT UNDERSTOOD BY MOST OF THE SMALLER CREDIT UNION. AND WHY SHOULD THEY BE WHEN CUs HAVE BEEN LED TO BELIEVE THE CORPORATES ARE SAFE. WHILE SOME OF THE PROBLEMS AT HAND MAY HAVE BEEN CREATED BY THESE EXPANDED AUTHORITIES, THE NATURAL PERSON CREDIT UNIONS HAVE PAID THE PRICE WITHOUT CLEAR KNOWLEDGE OF THE RISKS. FUTURE INVESTMENT RISK SHOULD ONLY BE ASSUMED BY THOSE INSTITUTIONS THAT CLEARLY UNDERSTAND AND ACCEPT THE RISK. NATUAL PERSON CREDIT UNIONS SHOULD NOT BE AT RISK FOR ACTIVITIES THEY HAVE NOT ACCEPTED.

e. Structure; Two-Tiered System: NCUA solicits comment on whether the current two-tier corporate system meets the needs of credit unions. Specifically, NCUA seeks input on whether there is a continuing need for a wholesale corporate credit union.

i. If so, what should be its primary role?

HISTORICALLY, JAX METRO CREDIT UNION HAS OPERATED WITHOUT RELYING ON A CORPORATE CREDIT UNION FOR ALL SERVICES WITH THE EXCEPTION OF DAILY LIQUIDITY. PAYMENT SYSTEM PRICING AT THE CORPORATE IS HIGHER FOR JAX METRO CREDIT UNION, SERVICE IS COMPARABLE TO OTHER OPTIONS, AND INVESTMENT OPTIONS ARE RARELY BETTER THAN WHAT OTHER BROKERS OFFER. SO ANY STRUCTURE MAINTAINING THE CORPORATES MUST CONSIDER FOR WHAT PURPOSE AND IF THE CREDIT UNIONS TRULY HAVE THE NEED.

ii. Should there be a differentiation in powers and authorities?

iii. Does the current configuration result in an inappropriate transfer of risk from the retail corporate to the wholesale corporate?

iv. Assuming the two-tiered system is required, should capital requirements and risk measurement criteria (e.g. net asset value, volatility), as well as the range of permissible investments, for the wholesale corporate be different from those requirements that apply to a retail corporate?

2) **Corporate Capital:** NCUA is considering revising certain definitions and standards for determining appropriate capital requirements for corporate. In addition to the questions below feel free to comment on any revision NCUA should consider for the definition and operation of membership capital.

NOT UNLIKE NATURAL PERSON CREDIT UNIONS, CAPITAL LEVELS SHOULD BE BASED ON THE RISK ASSESSMENT OF EACH CORPORATE. MEMBER PAID IN CAPITAL MAY BE INCLUDED TO OFFSET CALCULATED RISK AS LONG AS ALL IS DISCLOSED TO PARTICIPATING CREDIT UNIONS.

GENERATING CORE CAPITAL THROUGH OPERATIONS WILL HAVE A COST TO THE NATURAL PERSON CREDIT UNIONS. THOSE COSTS AND THE LEVEL OF CAPITAL SHOULD BE DIRECTLY RELATED TO THE SERVICES PROVIDED. THIS IS WHY WE DO NOT BELIEVE PAYMENT SERVICES AND INVESTMENTS SHOULD BE MIXED UP – THEY DO NOT CARRY THE SAME AMOUNT OF RISK. AND CONSEQUENTLY, DO NOT NEED THE SAME LEVEL OF CAPITAL.

a. Core Capital: Currently, core capital is defined as retained earnings plus paid-in-capital.

i. Should NCUA establish a new capital ratio for corporate consisting only of core capital, and if so, what would be an appropriate level?

ii. What would be an appropriate timeframe for corporate to attain sufficient capital?

- ***iii.*** How much emphasis should be placed on generating core capital through undivided earnings?
- ***iv.*** Should a corporate be required to limit its services only to members maintaining contributed core capital with the corporate?
- ***v.*** Should a corporate be required to limit its services only to members maintaining contributed core capital with the corporate?

b. Membership Capital:

- ***i.*** Should NCUA continue to allow membership capital in its current configuration, or should it eliminate or modify certain features, such as the adjustment feature, so that membership capital meets the traditionally accepted definition of tier- two capital?
- ***ii.*** Should the adjusted balance requirement, currently in 704.3(b) be tied only to assets, and should limits be imposed on the frequency of adjustments?
- ***iii.*** Should there be a requirement that any attempted reduction in membership capital based on downward adjustment automatically result in the account being placed on notice, within the meaning of 704.3(b), so that only a delayed payout after the three-year notice expires its permissible?
- ***iv.*** Should there be a requirement that any withdrawal of membership capital be conditioned on the corporate's ability to meet all applicable capital requirements following withdrawal?

c. Risk Based Capital and Contributed Capital Requirements

- ***i.*** Should NCUA consider risk-based capital for corporate consistent with that currently required of other federally regulated financial institutions?
- ***ii.*** What regulatory and statutory changes, if any, would be required to effectuate such a change?
- ***iii.*** Should a natural person credit union be required to maintain a contributed capital account with its corporate/ What about using asset size?

3) **Permissible Investment:** Currently, corporate have the authority to purchase and hold investments that would not be permissible for natural person credit unions. Thus, a member of a corporate is indirectly exposed to any risky investments held by the corporate.

ALLEGEDLY, ALLOWING THE CORPORATES TO MAKE RISKIER INVESTMENTS SHOULD HAVE BEEN OF SOME BENEFIT TO THE NATURAL PERSON CREDIT UNION. THAT HAS NOT BEEN THE CASE FOR JAX METRO CREDIT UNION. THEIR INVESTMENT OFFERINGS ARE NO BETTER THAN THOSE TO BE NEGOTIATED IN THE MARKET WITHOUT THE "INDIRECT" RISK.

- ***a.*** Should corporate investment authorities be limited to those allowed for natural person credit unions?
- ***b.*** Should certain categories or specific investments be prohibited? (For example: collateralized debt obligations, net interest margin securities and subprime and Alt-A asset-backed securities).

4) **Credit Risk Management:** With many questioning the reliability of credit ratings for investments, NCUA is considering limiting the extent to which a corporate may focus on ratings provided by Nationally Recognized Statistical Rating Organizations (NRSROs).
   a. Should NCUA require more than one rating for an investment, or require that the lowest rating s meet the minimum rating requirements of Part 704?
   b. Should additional stress modeling tools be required in the regulation to enhance credit risk management?
   c. Should Part 704 be revised to provide specific concentration limits, including sector and obligor limits? If so, what specific limits would be appropriate for corporate?
   d. Should corporate be required to obtain independent evaluations of credit risk in their investment portfolios? If so, what would be appropriate standards for these contractors?
   e. Should corporate be required to test sensitivities to credit spread widening, and if so, what standards should apply to that effort?
5) **Asset Liability Management:** NCUA is considering reinstating the requirement that corporate perform net interest income modeling and stress testing. Alternatively, NCUA may consider some form of mandatory modeling and testing of credit spread increases.
   a. Should NCUA require corporate to use monitoring tools to identify these types of trends? What, if any, tangible benefits would flow from these types of modeling requirements?
6) **Corporate Governance:** Due to the sophistication and far-reaching impact of corporate activities, NCUA is considering several changes to corporates' boards.

   a. Should NCUA establish minimum standards for directors in regard to their level of experience and independence?
   b. Should "outside directors" be allowed? (i.e., those who are not officers of that corporate, officers of member natural person credit unions, and/or individuals from entirely outside the credit union industry).

      THE RESPONSIBILITY OF CORPORATE BOARDS LIKE NATURAL PERSON CREDIT UNION BOARDS IS BECOMING MORE DEMANDING; HOWEVER CHANGING BOARD REQUIREMENTS WOULD NOT HAVE PREVENTED CURRENT ISSUES. ALL CREDIT UNION BOARDS SHOULD BE ABLE TO RELY ON QUALIFIED MANAGEMENT AND THIRD PARTY EXPERTS AS REQUIRED OR NEEDED. ADDITIONALLY, BOARDS SHOULD BE ABLE TO RELY ON REGULATOR OVERSIGHT TO RECOGNIZE AND RECOMMEND REMEDIES TO OPERATING DEFICIENCIES AND/OR RISK. PARTNERED WITH ALL THE TALENT IN THE CREDIT UNION INDUSTRY, THERE SHOULD NOT BE A NEED FOR OUTSIDE DIRECTORS.
   c. Is the current structure or retail and wholesale corporate credit union boards appropriate given the corporate business model?
   d. Should a wholesale corporate credit union be required to have some directors from natural person credit unions?
   e. Should NCUA impose term limits on corporate directors, and, if so, what should the maximum term be?
   f. Should corporate directors be compensated, and, if so, should such compensation be limited to outside directors only?
   g. Should NUCA allow members of corporate greater access to salary and benefit information for senior management?

7) **Other Comments:** NCUA also seeks comment on any other relevant issues pertaining to corporate credit unions that have not been addressed in this ANPR.

CONCLUSIONS

The role or Corporate Credit Unions has been an evolving process. Today's complex services and daily operational needs have placed extreme demands on all credit unions. And the Corporates have risen to the need of their members in providing these expanding service options. Yet in this drive for efficient service diversification, all natural person credit unions have not equally relied on the Corporates . Perhaps many natural person credit unions would cease to exist without the Corporates expanded services; this is still part of our evolution. NCUA is to be commended for their role in this very important time in our history. We trust their careful consideration of all facts at hand as they consider the role of Corporates today. Thank you again for receiving our comments.

Respectfully,

Sheree L. Eddie

Sheree L. Eddie
President
Jax Metro Credit Union

CC: Jax Metro Credit Union Board of Directors