

From: Steve Pierson [stevepierson@gmail.com]
Sent: Saturday, April 04, 2009 12:04 AM
To: _Regulatory Comments
Subject: Steve Pierson - Comments on Advanced Notice of Proposed Rulemaking for Part 704

Dear Ms Rupp:

Thank you for the opportunity to comment on the Advance Notice of Proposed Rulemaking (ANPR) on Part 704 in regards to Corporate Credit Unions.

1. The Role of Corporates in the Credit Union System

Comprehensive changes are not needed to the structure of the corporate system. It is my hope that any actions taken will be after a very thorough and careful analysis of corporate credit union system to avoid any unintended consequences. The last thing the corporate system needs right now are changes that cause natural person credit unions to have more reasons to consider other options for payments and investments. Payment System

Corporates could not competitively price payment services without the income they could derive from taking a spread on investments. If they only provided investment services, I do not think they would be very successful as there are too many attractive alternatives for investments that would not require membership capital.

Liquidity and Liquidity Management

I agree with the NCUA Board's position that providing liquidity to the credit union system is and should be one of the principal purposes of the corporate credit union network, but limiting a corporate's ability to offer specific products and services would not enhance the ability to provide this function. I believe this function is preserved by limiting the types of investments permitted.

Field of Membership Issues

Competition should be more limited and the best method to limit it would be to require a capital deposit as a requirement to join. If it is done by regulation, I would prefer limiting corporates to their existing state and all contiguous states.

Expanded Investment Authority

I believe the problems we currently face were partly caused by the expanded investment authority that currently exists. this expanded authority should be greatly reduced, possibly to the same standards of natural person credit unions.

Structure; two-tiered system

I do not believe the current structure with a second or wholesale tier contributed to the losses and eliminating this second tier would not solve our current problems. The retail corporates should operate as "pass throughs" with limited authority to assume risk. This would concentrate the risk at the national level and thus minimize the risk on a corporate's balance sheet. If the two tier structure is eliminated, I would prefer that these corporates become branches of U.S. Central.

2. Corporate Capital

I believe that as a condition of membership a credit union must deposit some form of capital and that the current language that limits the amount of contributions be retained.

Core Capital

The capital requirements should be standardized so that the decision on on which corporate to use is not based on the capital requirement, but rather on the products and services offered and the quality of that service.

3. Permissible Investments

The current corporate investment authorities should be revised to reduce the exposure that exists today, especially the concentration risk in various sectors.

4. Credit Risk Management

The current rating system has some serious weakness that are partly responsible for the losses the corporates are now experiencing. Until these systems are more reliable, I would be in favor of requiring several ratings and the use of the lowest rating to meet the minimum requirements of Part 704 in addition to additional internal stress modeling.

5. Asset Liability Management

I believe NCUA should reinstate the previous corporate rule that required corporate credit unions to perform net interest income modeling and stress testing. Other modeling tools may also be necessary.

6. Corporate Governance

I do not believe having a category of "outside director" would benefit corporates. It would be beneficial to have a minimum number of directors from natural person credit unions on the board of a wholesale corporate credit union. Directors should not be compensated. It would not guarantee quality and could increase the possibility of self-interest. Requiring a certain level of experience, qualifications and independence could be helpful along with specific training requirements, but term limits would only serve to reduce the pool of available qualified candidates over time.

Thank you for allowing me the opportunity to comment on these very critical issues that the entire credit union movement must now deal with.

Sincerely,

Steve Pierson, CCUE

President/CEO
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