From:	Mooney, Jim
To:	_Regulatory Comments
Subject:	James Mooney - Comments on Advanced Notice of Proposed Rulemaking for Part 704
Date:	Tuesday, April 07, 2009 10:07:37 AM

National Credit Union Administration

1775 Duke Street

Alexandria, VA 22314-3428

Re: Comments on Advanced Notice of Proposed Rulemaking for Part 704

Dear Sirs:

Thank you for providing an opportunity to comment on the future of corporate credit unions. On behalf of Chevron Federal Credit Union, we wish to recommend a significant change in the corporate credit union system that will enable corporate credit unions to provide value to natural person credit unions without incurring undue risk.

Issues for Consideration

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

It is our belief that there should be comprehensive changes to the structure of the corporate system.

Payment system

The payment system provided by corporate credit unions adds value to member credit unions, especially smaller credit unions. This includes item processing, share draft processing and wire services. These operational services do not require significant capital or a complex balance sheet.

Investment services

Our most significant recommendation is to restrict corporate credit unions and from offering investment services, such certificate accounts, for natural person credit unions. The benefit from this function is not enough to justify the cost and risk. Investments have become increasingly commoditized. In order to pay natural person credit union members a competitive rate on our deposits, corporate credit unions were forced to find investments that pay more in order to generate a margin that can support a large and complex infrastructure. If investment services are eliminated, so will the need to chase after yields, which as we have seen can lead to poor investment choices.

There are many banks and broker/dealers in the market place that provide investment services to credit unions. Our own experience with our corporate credit union indicates how difficult it is for corporate credit unions to provide the range of investment choices, competitive yields, and capable staff that can be readily found in the general financial services market.

Liquidity

In examining the balances of loans made by our corporate credit union, WesCorp, providing liquidity to natural credit unions is no longer a key function. In WesCorp's case, such loans make up only about 5% of its balance sheet. Numerous alternative sources of liquidity already exist, including the Federal Home Loan Bank system or even borrowing directly from the Central Liquidity Fund.

Field of Membership/Two-Tiered System

We believe there needs to be a substantial consolidation of corporate credit unions for efficiency and regulatory governance purposes. We also believe that the corporate credit union for corporate credit unions, i.e., U.S. Central, is an unnecessary layer in the system. Corporate credit unions should have the necessary sophistication to be able to obtain necessary services through the conventional marketplace.

Expanded Investment Authority

Our recommendation to curtail investment services makes such authority moot.

2. 2. Corporate Capital

The optimal capital structure for corporate credit unions will, of course, depend on the risk level of their business model. Much less capital would be called for if activities were primarily limited to payment processing (as we recommend) than if investments remain a significant function. As for the question regarding the various forms of capital, we have no specific recommendation. However, given the recent failures of the two largest corporate credit unions, is it realistic to believe any natural person credit union will reinvest in corporate credit union capital?

3. 3. Permissible Investments

4. 4. Credit Risk Management

5. 5. Asset Liability Management

Given our prior recommendations, these three issues effectively become moot.

6. 6. Corporate Governance

We fully agree that board of directors should have appropriate knowledge and expertise in the entity it governs. Consistent with the credit union practice, we do not believe board members should be compensated.

Observations and Conclusions

The collapse of the corporate credit union system is a genuine tragedy for the credit union movement. Natural person credit unions will be living with – or be mortally damaged by – the costs of NCUA's bailout for many years to come. It did not have to be this way.

Evidence of problems among the corporate credit unions became evident more than two years ago. It was at that time that our credit union began a concerted effort to move all of our investments out of our corporate credit union. We are not trained examiners, but the corporate's published financials told us all we needed to know.

There are no words to satisfactorily explain to my credit union's members why several million dollars in capital reserves that they helped build over nearly eight decades have been expropriated to "stabilize" these previously unknown (to our members) entities. This unpleasant episode provides convincing evidence that, if no one can recognize growing dangers within the corporate system, then the corporates should be in no position to ever again expose themselves to such dangers.

Thank you for your consideration of our recommendations.

Sincerely,

James E. Mooney

President & CEO

Chevron Federal Credit Union

Oakland, CA
