



February 5, 2009

The Honorable Michael E. Fryzel, Chairman
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Dear Chairman Fryzel,

I am writing in response to your recent action regarding the Corporate Credit Union System. The action taken by the NCUA on January 26, 2009 to prevent a collapse of the corporate credit unions will force some credit unions to become inadequately capitalized which may result in a widespread loss of confidence in natural person credit unions and possible failures as a result. While I understand the severity of the situation at hand and the need for quick action, I am concerned that this action was taken too hastily and without proper regard to the severe impact to natural person credit unions.

I understand and agree that the credit union industry as a whole is well-capitalized. However, there are credit unions located in states, such as California, Nevada, Arizona and Florida, where the rate of the decline in the housing market and the increase in unemployment has far surpassed the nation as a whole. Credit unions in these states are experiencing higher loan losses and a rapid deterioration of net worth. Many of these credit unions had a net loss in 2008 and prepared an operating plan for 2009 anticipating further losses. As a result, the operating plans call for tighter credit standards to minimize losses, reduced dividends to discourage share growth and operating expense reductions.

I would like to share with you the challenges I am facing at Bay Federal Credit Union, but, before I begin, I'd like to provide a few facts about our organization.

- Bay Federal Credit Union is a community chartered credit union, headquartered in Santa Cruz County, CA, with \$650 million in assets and 66,000 members.
- Bay Federal became a community chartered credit union in 1997, two years after I became CEO. In the past five years, we have grown in assets by over \$300 million with an average of 15% per year. Membership has grown by 20,000 and 7% each year.
- We have expanded to nine branches and now serve 66,000 members in three counties with a focus on the low and middle income markets. Our most recent branch opening in Salinas, California primarily serves low income members.
- In 2006, we hired a youth financial education coordinator who works full time teaching financial literacy to children and young adults in the classrooms at local schools.
- In 2007, we launched business services and opened over 900 new small business accounts and funded 24 small business loans.



- In 2008, we were voted one of the best places to work in a California statewide competition.
- We are the largest, locally owned financial institution in Santa Cruz County. In 2008, we grew to 10% deposit market share in Santa Cruz County with only Bank of America, Wells Fargo, Washington Mutual and Wachovia ahead of us.
- We are very active in the community where all of our managers serve on non-profit boards and, for each of the past six years, 100% of our 200 employees volunteered their time on behalf of the credit union to assist non-profit organizations.

During 2008, Santa Cruz County and Monterey County home values declined between 20% and 50%, depending on the neighborhood, and unemployment is currently over 10%. The loan losses that have resulted from these economic factors have greatly impacted the net worth ratio at Bay Federal. We started 2008 with a net worth ratio of 8.11% and ended the year with a ratio of 7.05%. Our net worth ratio dropped due membership growth of 8%, which produced asset growth of 7%, and a net loss, produced by provision for loan loss expense equaling 1.6% of assets.

Prior to the recent NCUA action, the goal of our operating plan, which has been reviewed by our NCUA examiner and district office, was to keep the net worth ratio above 6.5% in 2009 and rebuild it to a well-capitalized level by 2010. The plan, built to withstand rising loan losses, focuses on reducing expenses and reducing assets in order to achieve that goal. To date, we have implemented the following:

- We announced the closure of our Salinas branch, effective February 28, 2009, displacing over 2,000 primarily low income members.
- We laid off 30 employees or 13% of the staff.
- We shut down the indirect lending program, to the dismay of local auto dealers, some of whom relied upon Bay Federal for 50%+ of their customer financing.
- We tightened credit to reduce loan volume, in keeping with our goal to enhance liquidity by shrinking the loan portfolio.
- We reduced dividends on shares to below market with the goal of reducing deposits.

It has been extremely disappointing to take these actions while being asked by Congress and the President of the United States to look for ways to restart the economy. Bay Federal turns down opportunities every day that would benefit our members, the credit union and the community, except for the fact that it would result in growth and further dilution of the net worth ratio. If there was a way for credit unions to receive TARP funding, I would have applied in order to continue to successfully serve the needs of our members and the community. It is infuriating that a small local community bank with assets of \$250 million in our area applied for and received approval for \$5 million in TARP funds, not because they needed it, but just because they could. The NCUA action is short-sighted in that it further undermines our ability to provide financial services to our members and community at a time of great need.



The NCUA actions will have a very detrimental effect on Bay Federal, perhaps reducing the net worth ratio below 6%. As a prominent local financial institution, the community closely monitors our financial results and net worth. I am very concerned that the financial impact of replenishing the NCUSIF will be misunderstood, creating a loss of confidence and panic among the membership. I implore the NCUA to find a different solution to the problems. Here are my suggestions:

1. Apply for TARP funds from the Treasury to assist in the capitalization of the corporate and natural person credit unions and reverse the action you took on January 26, or
2. Recapitalize the corporate credit unions by asking credit unions to invest more capital shares in the regional corporates, which in turn can invest in U.S. Central or,
3. Use the increased NCUSIF funds collected through the premium to create a "TARP like" fund to allow natural person credit unions to apply for and receive capital infusions, similar to U.S. Central, or
4. Rebuild the NCUSIF over a five year period to 1.3% to minimize the impact in 2009 to natural person credit unions. I understand that Congress is considering this action for the FDIC.

The NCUA actions have weakened the entire industry. In honor of the past members who started Bay Federal Credit Union 51 years ago and with regard to the loyalty of my current members and community, I will not stand by and allow the NCUA to take away the hard earned capital that Bay Federal needs at this time without alternatives being aggressively explored. I respectfully disagree with the NCUA actions and I look forward to further dialogue to develop better solutions that serve the entire credit union community.

Sincerely,

A handwritten signature in black ink that reads "Carrie L. Birkhofer". The signature is written in a cursive style with a large, prominent "C" at the beginning.

Carrie L. Birkhofer
President and CEO
Bay Federal Credit Union

CC: Vice Chairman Rodney E. Hood, NCUA
Gigi Hyland, NCUA board member
Dan Mica, President and CEO, CUNA
William Cheney, President and CEO, California Credit Union League