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FEB09'09 PM 2:52 BOARD

February 6, 2009

Ms, Mary F. Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street,
Alexandria, VA 22314-3428

Dear NCUA Board Members:

Thank you for soliciting comments on the role corporate credit unions play in the credit union system, and NCUA's Advanced Notice of Proposed Rulemaking (ANPR) for Part 704 of the NCUA Rules and Regulations. The comments presented in this letter are influenced by my nearly thirty years as an NCUA Principal Examiner, NCUA Corporate Credit Union Examiner, NCUA's first Corporate Examiner Coordinator, CEO for eighteen years of a $50 million dollar CAMEL 1 Natural Person Credit Union, Director of the New York State Credit Union League, President of both the Adirondack District and the Northern Chapter of the New York State Credit Union League, and a Credit Union Consultant.

1. Role of Corporate Credit Unions in the Credit Union System.

NCUA needs to change the structure of the Corporate System. There should not be a wholesale tier, US Central Credit Union, in the Corporate System. Allowing US Central Credit Union to be the center of the corporate system with twenty-seven spokes in the wheel does not make sense. The Federal Reserve has twelve regional banks. The corporate system should have twelve regional Federally chartered Corporate Credit Unions. Since the Federal Government is responsible for the country's finances, it makes more sense to have twelve Federally chartered regional Corporate Credit Unions.

It also makes sense to separate the regional Corporate Credit Unions into payment services and investments structures with separate distinct capital requirements.

NCUA needs to require Corporate Credit Unions to properly consider their investment position relative to their cash flow needs. Historically, the primary role of a Corporate Credit Union has been to provide and ensure liquidity. Liquidity is not only a core service of the Corporate System, but should be the main reason why a Corporate Credit Union exists. **If a Corporate Credit Union's main reason for operation is other than providing liquidity to its Natural Person Credit Unions, then scrap the movement and put credit unions under the Federal Reserve System.**

NCUA should also add aggregate cash flow duration limitations to Part 704.

Field of Membership Issues:

NCUA did a disservice to America's credit union movement by allowing Corporate National Charters under the premise "of fostering competition". NCUA gave the Corporate Credit Unions the rope to hang themselves, and now future generations will pay. NCUA should require corporate credit unions to return to a defined regional field of membership patterned after the twelve Federal Reserve Banks. Concerning the question of only having federal Corporate Credit Unions, **States rights should not an issue when dealing with a National Financial Crisis**.

Expanded Investment Authority:

Part 704 needs to be amended to prohibit the "option" by which a Corporate Credit Union meeting certain criteria can qualify for expanded investment authority. That provision allowed Corporate Credit Unions to get themselves into trouble, which has had an adverse affect on Natural Person Credit Unions.

Allowing Corporate Credit Unions to make investments, which Natural Person Credit Unions are prohibited, was a horrible mistake. A National Person Credit Union invests a majority of its assets in "loans to its members", while the Corporate System has almost no loans, but purchased risky investments without considering the downside. **What ever happened to the SLY (Safety, Liquidity, and Yield) principle of investing funds**?

How was it that the Corporate Credit Union Network was allowed to have a liquidity crisis? **Shouldn't Corporate Credit Unions match "Sources and Uses of Funds"? This ensures that financial institutions are able to meet liquidity demands?** On the February 4, 2009 NAFCU Web-cast, hearing David Marquis state NCUA placed a maximum four month maturity on future Corporate Credit Union investments during the fourth quarter of 2008, was disturbing—especially since he stated NCUA knew market conditions started changing in Mid-2007.

Structure; Two-Tiered System:

There should not be a two tier, wholesale and regional, Corporate Credit Union System. The current corporate credit union system is obsolete and needs to be scrapped. **The cost, loss of confidence, and burdens of an uncertain financial future, that the Corporate System has placed upon Natural Person Credit Unions, is unacceptable.** There is no justification why a wholesale Corporate Credit Union should have different capital requirements and risk measurement criteria, as well as the range of permissible investments, than those requirements that apply to a retail corporate credit union.

The NCUA Board needs to take a leadership role in restructuring the Corporate Credit Union System without caving into the political pressures brought forth by the trade associations. **The country's financial structure has been jeopardized by the self-serving decisions of some board of directors and management teams within the present Corporate Network.**

2. Corporate Capital

The current Corporate Credit Union capital structure needs to be revised. NCUA should require corporate credit unions to maintain a higher minimum "core capital ratio". Furthermore, by allowing corporate credit unions to have non-uniform "Membership Capital" requirements, potential losses are not equally shared by the Natural Person Credit Unions. **The fairness of the current practice is questionable.** Every Natural Person Credit Union that makes an insured investment in a regional Corporate Credit Union should be required to deposit <u>one percent</u> of the Natural Person Credit Unions assets in "Membership Capital" at the Regional Corporate. Either all Natural Person Credit Unions contribute the same percentage of assets to membership capital or none at all. If all Corporate Credit Union members are required to maintain the same percentage of assets as membership capital, I believe a Corporate Credit Union would be held more responsible by its Natural Person Credit Union membership. **Since the credit union movement is a cooperative, all Natural Person Credit Unions should share equally in the membership capital risk.** There are numerous Natural Person Credit Unions that have investments at Regional Corporate Credit Unions without purchasing Membership Capital.

A new ratio on risk weighted asset classification, which includes "Member Capital" would also be a great idea.

Core Capital:

NCUA should include the traditional "Tier one Capital" and "Membership Capital" in Core Capital. NCUA should require that a Corporate Credit Union limit its services only to members maintaining contributed core capital with the corporate using the parameters in the above sentence.

NCUA should **not** continue to allow Membership Capital in its current configuration for the same reasons I mentioned in the above Corporate Capital section.

The "Membership Capital Shares" adjustment feature should occur quarterly—based on a percentage of a Natural Person Credit Union assets listed on the NCUA Call report. The quarterly feature hopefully will keep the "Membership Capital" issue front and center in both the Natural Person Credit Unions and the Corporate Credit Unions, which are the stewards of those funds.

NCUA should require any attempted reduction in membership capital based on downward adjustments; which will automatically result in the account being placed on notice, within the meaning of Part 704.3(b)(3) of the NCUA Rules and Regulations; so that only a delayed payout, after the three-year notice expires, is permissible. Furthermore, NCUA should require any withdrawal of membership capital be conditioned on a Corporate Credit Union's ability to meet all applicable capital requirements following withdrawal—**These actions should be taken only when Membership Capital is equally fair for all members, same percentage of assets, otherwise the risk is not proportionally applied to the Corporate Credit Union's Natural Person Credit Union membership.**

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Risk-Based Capital and Contributed Capital Requirements:

NCUA should implement risk-based capital for Corporate Credit Unions consistent with that currently required of other federally regulated financial institutions.

Natural person credit unions need to be required to maintain a contributed capital account with its Corporate Credit Union as a prerequisite to obtaining services. The contributed Membership Capital should be based on a Natural Person Credit Union's assets—more accurate reflection of the institutions financial position.

Large credit unions are not as dependent on Corporate Credit Union payment services as small to medium asset size credit unions. The rapid growth in Corporate Credit Union assets came from funds at large credit unions, many to whom were not required to make the same Membership Capital requirement as small or medium asset sized credit unions.

3. Permissible Investments:

NCUA should restrict Corporate Credit Union investment authority. **It makes no sense that a Corporate Credit Union can make investments that are prohibited for Natural Person Credit Unions**—Natural Person Credit Unions follow NCUA investment regulations, invest funds in a Corporate Credit Union, that make investments which Natural Person Credit Unions cannot, and now the Natural Person Credit Union is subject to losses from the Corporate Credit Union investment activity.

As a former CEO and member of the Board of a Natural Person Credit Union, I would rather have a Natural Person Credit Union assess risk, instead of having a Corporate Credit Union take risk in investments which the Natural Person Credit Union cannot control or is also prohibited from making.

From talking with some Northeastern New York State Natural Person Credit Union CEO's and Directors, I have learned that they are very upset that their members' funds have been jeopardized.

4. Credit Risk Management:

NCUA should require more than one rating for an investment, and also require that the lowest rating meet the minimum rating of Part 704 of the NCUA Rules and Regulations.

NCUA should also require additional stress modeling tools in the Corporate Credit Union Regulation to enhance credit risk management.

Amending credit risk management is long overdue, but until NCUA, and the other Federal Regulators lobby Congress to monitor rating organizations, how can

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Asset Liability Management:

NCUA should mandate that Corporate Credit Unions use modeling and testing of credit union spreads that was in a previous version of the corporate rule.

6. Corporate Governance**:**

NCUA **must** establish minimum standards for Corporate Credit Union Board of Directors **to ensure** that they possess an **appropriate level of experience and independence**. During Chairperson Norman D'Amours tenure, NCUA requested comments on Corporate Credit Union regulations. At that time, many individuals, including myself, voiced concerns with Corporate Governance issues, but in my opinion NCUA failed to adequately address them. **It is way past time for a change.**

NCUA and other Federal Regulators should lobby Congress to require Corporate credit union directors, and directors of Banks and large Credit Unions, that are federally insured, to participate in an extensive training course that requires the participants to pass a comprehensive test prior to being seated on the financial institution Board of Directors. If NCUA requires Natural Person Credit Union staff and directors to have BSA and OFAC training which tests their knowledge of the regulations, then board of directors at corporate credit unions and large credits union should also be required to receive training, after they are elected, prior to assuming their director duties.

Establishing a category of "outside director" is a great idea as long as those individuals are a member of a Natural Person Credit Union and also pass a minimum competency test.

NCUA should impose a six-year term limit for Corporate Credit Union Directors—two three-year terms.

Compensation for Corporate Credit Union Directors is a good idea. If the Corporate Credit Union does not meet acceptable goals, then the Director's, at their own expense, should be required to pass another competency test or face removal from the Board.

As stated previously, there is no need for a wholesale Corporate Credit Union if the Corporate Credit Union System is patterned similar to the twelve Federal Reserve Banks. If the wholesale corporate structure remains, all directors should be members of a Natural Person Credit Union without ties to any retail Corporate Credit Union. **Cracks in the corporate network have become a problem and need to be fixed.**

All Corporate Credit Unions should be required to disclose executive and senior management salary and benefit information in their annual report. It goes without saying, Natural Person Credit Union should know what Corporate Credit Union executives and senior management are paid. The Wall Street crisis has rattled "Main Street" and the country's "Heartland". **Natural Person Credit Unions are rattled. In my opinion, non disclosure of executive and senior management compensation, is an**

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I hope the NCUA Board and management team effectively handles this situation. I thought the short term solution that NCUA presented was fair, but the time it took to act when market conditions changed in mid 2007 until October 2008, when a maturity limit was placed on Corporate Credit Union investments, makes me wonder if NCUA diligently performed its stewardship duties.

Reg Flex, under Chairpersons Dollar and Johnson, is partly responsible for the problems that credit unions face today. There is a general perception that NCUA and the trade associations are joined at the hip. **Protecting the ninety million credit union members' savings by enforcing safe and sound regulations hopefully never comes into question.**

Thank you for providing me with the opportunity to express by opinions. I personally feel that several Corporate Credit Union Directors and Management Teams should be fired—placing personal gain over those of the members, whose trust they betrayed. **To sweep under the rug the actions that those individuals either took or approved, is unacceptable and rewards failure.**

Sincerely,

Edward J. Albright

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cc: Credit Union National Association (CUNA)
National Association of Federal Credit Unions (NAFCU)
National Federation of Community Development Credit Unions (NFCDCU)