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

Dear Board Secretary Rupp,

Thank you for the opportunity to respond to the ANPR regarding the future role of corporate credit unions, including their structure, size and types of services to be offered.

As a natural person credit union President/CEO, I am a strong believer in the corporate network. In fact, I have been a volunteer at a corporate for many years. Corporates fill an important role in the marketplace by providing "providers of choice" over non-credit union related alternatives. Therefore, my overall opinion is that the corporate credit union system needs to remain as natural person credit unions' primary service partners. For these reasons I provide my comments to the Board.

A strong regional corporate network would serve us best. There is no need for the number of corporates that we have today. Contrarily, there is no need to have just one corporate. A small number of regionalized corporates would:

- Maintain a competitive market place that benefits credit unions in the form of choice and cost savings therefore ultimately benefitting their members.
- Continue to provide the many products and services we have all come to rely upon, from investment services to liquidity to payment processing and others "in between".
- Rightfully maintain ownership within our credit union industry.
- Still allow for a good level of personalized service when needed through the regional concept.
- Eliminate the need for reliance on banks or other vendors.

1. The Role of Corporates in the Credit Union System

Payment System

We rely heavily on our corporate for processing of payments and I do not see that changing in the foreseeable future. To a great extent they are part of our "back office". However, I recognize that the risks and subsequent capital requirements for payment system/other services versus investment services are very different. Therefore, I feel a separation should be pursued in one of two ways:

1. Allow a corporate to specifically select between offering investments or payment services and create applicable capital requirements and operating regulations for each; or
2. Allow an individual corporate to do both, but impose a "weighted" capital requirement that would help mitigate the risk in each category. For example, investment services capital might be required to be 5%; add that to 1.5% required for payment services and the total requirement for that corporate would be a 6.5% minimum.

Liquidity and Liquidity Management

I feel liquidity should continue to be a core service offered by corporate credit unions because when we are in a cycle of lower liquidity, membership in a corporate provides a fast, flexible and cost effective way to get funds. Again, if a corporate chooses to be a liquidity provider, its regulatory and operational requirements should be in line with that choice. It should not be to the exclusion of other offerings unless requirements could not reasonably be met as to cash flow measurement.

Field of Membership Issues

I never cared for national fields of membership. I strongly feel that they created excess competition in response to natural person credit union requests for better returns on investments. That has played a significant role in arriving at today's situation. That being said, under a regional system, with the possibility of certain corporates offering only selected services, it would be necessary to have membership open nationally. This would maintain an appropriate level of market competition with fewer players while allowing a credit union to better select their corporate partner(s).

Expanded Investment Authority

I don't feel that expanded authorities should be continued as is. NCUA should only allow investments in which they themselves have expertise so they can maintain an appropriate level of oversight. However, in the selection of appropriate corporate investments, the Agency must absolutely not lose sight of the fact that competition for consumer deposit dollars is fierce; the ability to gain returns sufficient to maintain growth must be carefully weighed against safety and soundness issues.

Structure; Two-Tiered System

U.S. Central would not be needed in a system of regional corporates owned by their members. The model of the Federal Reserve System is evidence of this, and corporates could follow that model. While without U.S. Central, corporate credit unions would need to have expanded opportunities to borrow elsewhere, the CLF could and *should* certainly be used. If for some unfortunate reason the current system is maintained, the requirements and measurements for safety absolutely need to be different in light of the terrible domino effect we are all experiencing from U.S. Central at this time.

2. Corporate Capital

Core Capital

NCUA should require specific capital requirements based on risk-rating. Arbitrarily selecting a level such as four or five percent would really have no meaning unless supported by statistical analyses. Further, the core capital should consist of retained earnings and membership capital shares (see next section). Combined capital from the existing corporates plus loans from the CLF should be used to initially fund the "new" regional network. For measuring core capital levels while accounting for asset fluctuation, average assets should be used; but add a specific required "base"dollar amount which would be calculated to take seasonal trends into consideration. Further, NCUA should not restrict market competition by allowing only members with contributed core capital to use a corporate's services. This could minimize opportunities to build capital. Let the corporates set different pricing for contributors vs. non-contributors as an "incentive" to contribute.

Membership Capital

After what has happened, it is impractical to think that natural person credit unions will be very willing to provide membership capital going forward. I would make this optional, leaving the corporates to entice membership capital by producing strong financial and operational results on a consistent basis. Further, annual adjustments made to membership capital should be based on average assets to avoid over or under contribution due to seasonal balance fluctuations.

Risk-based capital and contributed capital requirements

Credit unions and corporates are unlike other federally regulated financial institutions. To use a "one-size-fits-all" mentality would be to ignore this fact. While I believe risk-based capital is an absolute necessity going forward, the risk rating should be specific to the nature of corporate credit unions.

3. Permissible Investments

As I stated earlier, in a highly competitive environment, when natural person credit unions are looking for enhanced returns, safety and soundness must be balanced. Allow only investments that both corporates and NCUA can fully understand.

4. Credit Risk Management

I feel that the ratings agencies are unjustly escaping blame for current problems when it is their ratings that were heavily relied upon in purchasing today's problem investments within the network. Whatever is done with permissible investments, I would strongly encourage a move away from relationships with these firms, and move to a solid network and Agency understanding of investment characteristics and risks. The ratings agencies have certainly not demonstrated reliability or responsibility.

Concentration limits should be assigned based on the risk tolerance of the corporate with appropriate capital requirements on the other side. While Part 704 should be revised to provide the requirement of limits, the limits themselves in Part 704 could be wider parameters with specifics to be determined corporate by corporate depending upon their business model.

It would be an excellent idea to require a third-party credit risk evaluation once per year. However, the Agency, corporates and selected vendors should agree on a uniform set of criteria and analysis to provide a solid and consistent understanding of risk in the network.

5. Asset Liability Management

ALM modeling should be required regardless of the current environment, and should test increasing and decreasing spread scenarios.

6. Corporate Governance

Corporate governance should remain with the natural person credit unions. We have a true understanding of what we need to serve our members. Most volunteers are caring, hard-working individuals who give up their time to the benefit of their corporate and its members. To use "outsiders" could dilute this focus, and compensation would do the same. In a regional network, there would be more expertise available, as a fewer number of volunteers would be needed overall. Insofar as qualifications, volunteers should come from natural person credit unions with a proven track record of good performance and service to their members. Perhaps the overall CAMEL rating could be used for this determination. Individually, corporates should be required to provide periodic training on key issues for their directors and committee members. Term limits are a very good idea, and hopefully with a larger pool of volunteers available would not become detrimental to the network.

Continuing with the current governance structure while not mandating membership capital shares could be an initial challenge, but as the regional network takes hold and begins to prudently provide the services we need, I feel that the current psychological barriers can be overcome.

Again, I thank you for the opportunity to provide my thoughts and comments on these critical topics.

Very truly yours,

Robert L. Aresti
President/CEO
360 Federal Credit Union

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