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Responses to NCUA Advanced Notice of Proposed Rule Making, due NLT 6 April 009

Payment System Proposals

1. *Should payment system services be isolated from other services*?
   No. Continuing to allow corporate credit unions (CCUs) to offer payment services allows for efficiencies which benefit natural person credit unions (NPCUs). The risk involved in payment services should be significantly lower than investment risks. NPCUs should continue to enjoy the availability of choices in obtaining payment services, and CCU's should be free to offer services and to provide whatever assurances, such as firewalls between payment and investment services, they believe their NPCU customers desire. Mandating separate entities provide payment services could result in unintended inefficiencies at multiple levels, e.g. both inefficiencies within organizations restricted to providing payment services, and for NPCU's forced to obtain different services from different vendors.

2. *Should corporate be limited by charter to providing only payment services?*
   No. While a corporate should be able to decide to provide only payment services, or to decide to provide only another service, or a combination of services, there is no reason for regulatory limitation of a corporate to provide only payment services, as there is not an inherent conflict of interest among the various potential services and payment services.

3. *Is there sufficient earning potential in offering payments systems to support a limited business model restricted to payment services.*
   Viability of the business model for payment services alone is likely to change over time, especially with evolving changes in electronic funds processing. Whatever the viability appears to be at a given time, it is logical to assume that a business model will have greater probability of economic success if the organization is not limited to providing a single service. Individual organizations should be free to select that combination of services which makes most sense for the individual entity.

Liquidity and Liquidity Management

1. *How should CCU's liquidity be preserved and strengthened?*
   Has overall CCU liquidity been compromised? It would appear that CCU liquidity has become an issue in a very limited manner despite these highly unusual global circumstances. Rather than punishing all NPCU's for the less conservative financial decisions of a few, NPCU's should continue to manage their liquidity, and should be free to assess the risks of investing with different entities, including different CCU's. Allowing the normal course of events to take place, including losses on high risk loans by those who made those loans, rather than forcing all NPCU's to fund the losses caused by improvident decisions of a few, is a better outcome that is likely to lead to better future management.

2. *Should the NCUA limit the ability of CCU's to offer various types of products and services?*
   Regulations should provide philosophical guidelines around a risk-based framework, rather than naming specific financial products, as the financial industry will continue to invent new "products" many of which appear to be based on hypothetical rather than real assets. Individual CCU's should be free to adopt and publish individual risk/reward based management approaches and the NPCU's should be free to select among both the several CCU's with their different approaches and from among the investment categories a particular CCU offers. Section 704 of Title 12 appears to provide sufficient guidance in this regard.

3. *Should NCUA add cash flow duration limitations to Part 704?*
   No. Developing limitations which will suit all potential economic conditions well is likely to be difficult if possible. Management of individual CU's at the natural person and corporate levels should be able to manage cash flow for their individual institutions considering their individual circumstances. Furthermore, CU's should not have more stringent limits placed on them in this regard than are placed on their for-profit competition.

Field of Membership

1. *Should defined Fields of Membership be reimposed on CCU's?*

No. NPCU's should retain the advantages of being able to select products from different CCU's. While competition in the past may have encouraged risk taking, similarly competition may encourage CCU's to develop products in different risk categories with associated reward levels. NPCU's should have the freedom to select among the different CCU's and their respective products. To provide any level of competitive offerings for NPCU's no less than three CCU's would have to be available within any field, and even that may not lead to effective competition. Allowing NPCU's the ability to obtain services from all CCU's is far superior to limiting their choices.

Implementing an "FOM" or Field of Membership scheme at the state or regional level would restrict the corporate credit unions accessible to natural person credit unions. Nation-wide access is desirable as different corporate credit unions may develop different patterns of investing, or provide different levels of services, providing natural person credit unions with a range of choices in each element, as well as providing an incentive to corporate credit unions to improve operations and services over time. This is desirable.

A state-level FOM would essentially require around 50 corporate credit unions, which would have several negative effects: a) the smaller size of operations would likely inhibit operational efficiencies available from economies of scale; b) it would eliminate choices for natural person credit unions in the areas of levels of risk and of services; and c) it would eliminate the benefits of competition among corporate credit unions.

To have effective competition, natural person credit unions should be able to choose among not fewer than three corporate credit unions.

Expanded Investment Authority

1. *Is there a continued need for expanded authority?*
   Probably. Part 704 provides a number of opportunities that appear appropriate, as long as NPCU's have the opportunity to select products that fit their requirements with known risk and reward levels.

Corporate credit union structure

1. *Does the two tiered corporate structure meet the needs of credit unions?*
   Presumably this can be answered by gauging the degree to which the wholesale CCU is utilized.
2. *Is there a continuing need for a wholesale CCU?*
   Presumably the wholesale CCU allows other CCUs to obtain the benefits of larger aggregation for large investments that would not be available otherwise.
6. *Should CCU's limit services to only those NPCU's maintaining core capital with the individual CCU?*
   No. NPCU ability to select products from among the offerings of many CCU's should not be constrained by having to provide core capital to many different CCU's.

Risk-based capital and contributed capital requirements

3. *Should a NPCU be required to maintain a contributed capital account at each CCU from which it wishes to obtain services?*
   No. While some requirements for NPCU's to provide contributed capital are appropriate, requiring NPCU's to provide contributed capital to every CCU from which any services are desired increases the cost of obtaining services unnecessarily. Such a requirement also makes CCU's a less cost-effective alternative to non-CCU sources. If capital contributions are required from NPCU's to obtain services from CCU's, the requirements should be adopted in a stepped manner, requiring only increments of core capital contributions depending upon the level of services and level of investments by each natural person credit union utilizing such services.

Corporate governance

1. *Should directors be required to possess an appropriate level of experience and independence*?
   No. Characteristics other than nominal experience can be more important and desirable than experience. While an indication of what types of experience are desirable could be stated in regulation, each CU should have the flexibility to elect individuals whom they believe to be best suited for the job, regardless of actual experience.
2. *Should outside directors be permitted or required?*
   CCU's should have at least some directors from natural person credit unions, as those are the true "members." Directors from "outside" the credit union industry should be permitted but not required. A number of factors influence the availability of appropriately talented and skilled

personnel to serve as outside directors, and those factors may vary among CCU's. Limiting the percentage of directors from outside the credit union movement to something like 40% would be appropriate, providing sufficient beneficial outside influence (and independence) without controlling boards. "Independence" is a subjective issue. There should be no prohibition on directors from among the member NPCUs, and membership on a board should not be entirely precluded for a senior member of the CCU staff, but it might benefit from being limited to the equivalent of one member for a five person board, i.e. 20%.

3. *Should directors be term limited and allowed compensation with transparency on executive compensation*?
   Compensation to directors appears appropriate, especially if educational and experience pre-requisites are strongly desired or imposed, and if directors are expected to devote significant effort to their functions. If any directors receive compensation, all directors should receive such compensation. Term limits, if any, should be at the discretion of the individual CU. If imposed, they should be of sufficient longevity that directors can become fluent in the issues involving credit union operations and then contribute for a number of years, e.g. a limitation for an aggregate of not less than twelve years. Compensation packages for senior managers, including any perquisites, all termination packages, etc. should be entirely transparent and should be openly published.
4. *Should wholesale corporate credit unions be required to have board members from NPCU's.*
   No. While board members from NPCU's should be permitted, they need not be required, as the "members" of the wholesale CU are really the CCU's, and their objectives should already reflect the needs of their respective NPCU members.