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

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

Dear Ms. Rupp:

I am the President/CEO of Legacy FCU. I am writing to address several areas in your proposed rulemaking in Part 704.

Role of Corporates in the Credit Union System

Payment System: Currently, payment systems offered by corporates are coupled with other services.

1. Should payment services be isolated from other services to separate the risks? If so, how is this best achieved?

I don't believe this to be a viable answer. Corporates have to be allowed to engage in other services in order to generate revenue to cover the costs of payment services. If not the cost of doing just payment services would have to be increased too much and that cost would then be passed on to the credit unions using that service. For some of the larger credit unions they could take this service in-house, but for many of us we need to have someone else provide this service. If the costs rise that would put us at a competitive disadvantage. Corporates need enough flexibility in their operations as to how best to cover these costs.

2. Should a separate charter be available for corporates that want to provide investment services?

I don't think further fragmenting the industry would be of any benefit. Allow enough flexibility for each corporate to determine what course of business they wish to pursue

3. Should NCUA establish a legal and operational firewall between payment system services and other services?

I don't think this is the answer. Restricting the corporate services may place an undue burden on their ability to generate revenue or adversely raise the price they have to charge for clearing services.

4). Are there sufficient earnings potential in offering payment systems to support a limited business model that is restricted to payment services only?

Again I don't think this would work. Payment systems are a necessary part of credit union operations but they are not a revenue producing service. In order to generate enough revenue costs would have to be increased to such a level that using that service would put a credit union at a competitive disadvantage.

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Liquidity and Liquidity Management: A vital role of corporates is to fulfill the liquidity needs of their members. Thus, it is crucial that corporates properly consider their investment position relative to their cash flow needs.

1) Should liquidity be considered a core service of the corporate system? If so, what steps should be taken, and by whom, to preserve and defend the liquidity function?

I think liquidity is a core service of the corporate system. All drecit ;unions should utilize the corporate system as it best fits their needs. Each corporate should decide what steps it needs to take to establish and preserve their liquidity requirements.

2). For example, should NCUA consider limiting a corporates ability to offer other specific types of products and services in order to preserve and defend the liquidity function?

No, we don't believe corporates should be restricted to specific types of products and services.

3) What specific types of products and services should corporates be authorized to provide?

Each corporate should be allowed to provide any products or services that are beneficial to natural person credit unions and complies with all rules and regulations.

Field of Membership Issues: NCUA is questioning whether the allowance of national FOMs for corporates has resulted in significant, and unforeseen, risk taking.

1) Should NCUA return to defined FOMs, for example, state or regional FOMs?

I think offering national FOMs made for more competition among corporate and as such forced them into investment markets they may not have needed to be in , in order to pay rates high enough to attract dollars .

Expanded Investment Authority: Currently, corporates meeting certain criteria can qualify for expanded investment authority; such as authority to purchase investments with relatively lower credit ratings than otherwise permissible under the rule.

1). Does the need for expanded authorities continue to exist? If so, should NCUA modify the procedures and qualifications, such as higher capital requirements? If so, what should the new standards be?

I don't know if they are needed or not. Clearly there needs to be high qualifications set. I think a lot of this was caused however by a global economic meltdown, not just the actions of the investment officers. That said someone should have had the foresight to minimize or eliminate this risk much earlier than it was done.

Structure; Two-Tiered System: NCUA solicits comment on whether the current two-tier corporate system meets the needs of credit unions.
Specifically, NCUA seeks input on whether there is a continuing need for a wholesale corporate credit union.

1. If so, what should be its primary role?

I don't think that bigger is always better, so simply having one large central would not necessarily help. I feel the current structure would be fine if it is serving its members needs.   I don't think having national charters has helped this situation.

2. Assuming the two-tiered system is retained, should capital requirements and risk measurement criteria (e.g., net asset value volatility), as well as the range of permissible investments, for the wholesale corporate be different from those requirements that apply to a retail corporate?

Yes I think we need a more conservative approach then we have taken recently to insure this doesn't happen again.

Corporate Capital: NCUA is considering revising certain definitions and standards for determining appropriate capital requirements for corporates. In addition to the questions below feel free to comment on any revisions NCUA should consider for the definition and operation of membership capital.

A. Core Capital: Currently, core capital is defined as retained earnings plus paid-in capital.

1. Should NCUA establish a new capital ratio for corporates consisting only of core capital, and if so, what would be an appropriate level?

I feel there should be a larger capital requirement, but I don't feel that natural person credit unions should be expected to contribute it all. I feel that corporate should have to build that capital just like we do.

B. Risk-Based Capital and Contributed Capital Requirements

1. Should NCUA consider risk-based capital for corporates consistent with that currently required of other federally regulated financial institutions?

Yes, NCUA should consider and implement risk-based capital for corporates consistent with that currently required of natural person credit unions and other financial institutions.

2. Should a natural person credit union be required to maintain a contributed capital account with its corporate as a prerequisite to obtaining its services?

Yes, you either need to support the system or you don't, but I don't feel that it needs to be a large amount. Again I think corporate should have to build their capital just like natural person credit unions do.

Permissible Investments: Currently, corporates have the authority of purchase and hold investments that would not be permissible for natural person credit unions. Thus, a member of a corporate is indirectly exposed to any risky investments held by the corporate.

1) Should corporate investment authorities be limited to those allowed for natural person credit unions?

I don't think it has to go this far. Again much of this was caused by an extraordinary market conditions, but there needs to be better qualifications and oversight as well as transparency to the whole investment operations. No.

Credit Risk Management: With many questioning the reliability of credit ratings for investments, NCUA is considering limiting the extent to which a corporate may focus on ratings provided by Nationally Recognized Statistical Rating Organizations (NRSROs).

I don't feel I am totally qualified to comment on much of this but feel that if a corporate is going to be allowed to invest in many of these instruments that independent annual audit, and sensitivities' test should be required so adjustments can be made as warranted.

Asset Liability Management: NCUA is considering reinstating the requirement that corporates perform net interest income modeling and stress testing. Alternatively, NCUA may consider some form of mandatory modeling and testing of credit spread increases.

1) Should NCUA require corporates to use monitoring tools to identify these types of trends? What, if any, tangible benefits would flow from these types of modeling requirements?

Yes, it would give the corporate credit unions as well as NCUA a better sense of how the corporate investments are performing.

Corporate Governance: Due to the sophistication and far-reaching impact of corporate activities, NCUA is considering several changes to corporates` boards.

1) Should NCUA establish minimum standards for directors in regard to their level of experience and independence?

Yes the Board needs to have basic understanding of what they are dealing with in order to understand what management is telling them.

2). Should "outside directors" be allowed? (I.e., those who are not officers of that corporate, officers of member natural person credit unions, and/or individuals from entirely outside the credit union industry).

I think it should be allowed but not dictated. It could be beneficial for outside directors to provide perspective to various issues.

3) Should corporate directors be compensated, and, if so, should such compensation be limited to outside directors only?

I don't think they should. We should be able to come up with competent volunteers within our movement to handle the job.

4) Should NCUA allow members of corporates greater access to salary and benefit information on senior management?

No I think that should be up to each individual corporate and the board.

Sincerely,

Douglas C. Mountain
President Legacy FCU