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March 31, 2009

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

Re: ***Comments of Proposed Rulemaking Part 704***

Dear Ms. Rupp:

Consumers Credit Union (CCU) would like to thank NCUA for allowing credit unions the opportunity to comment on the state of the Corporate Credit Union system and to address the concerns / options available to NCUA. The participative process being proposed is at the foundation of the credit union movement. The intent of this letter is to document our credit union's perspective on the ANPR.

Role of Corporates

The corporate credit union system has functioned quite well over the last two decades. We all must realize that the current economic environment occurs 1-2 times a century and the proposed regulatory changes should not negatively impact the competitiveness of credit unions. We are concerned about over-regulation and the stifling of innovation.

Our credit union utilizes multiple corporates for liquidity services but only one corporate for payment systems. Separating these functions would be counterproductive, since the pricing impact would be negative due to increased overhead; moreover, there would only be negligible risk reduction. Just as in the example of CapCorp, the challenges we face today are not payment risk issues but credit / interest rate risk management. The corporate system should not separate these functions, since the end result would be inferior pricing which would consequently reduce the competitiveness of natural person credit unions.

The more challenging question is, "What range of products and services should be provided by corporates?" For a number of years, corporates and leagues have been competing against one another for the same product lines. It is not uncommon to find similar services being provided by corporates, trade associations and CUNA Mutual Group. In our opinion, the products and services provided by corporates should be limited solely to liquidity and payment system services. This suggested restriction includes investment advisory and ALM Consulting.

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The ANPR suggested national field of memberships by corporates created excessive risk taking due to the competition. In any given day, our credit union is competing with a half dozen other local credit unions, yet none of us are experiencing the financial challenges of the corporates. After all, competition creates innovation, which in turn generates success. We have witnessed corporates competitively responding to one another but in the end it is our belief that natural person credit unions benefited. Some corporates are suggesting to eliminate competition which our belief is self serving. We would be thrilled to not compete against Chase and Bank of America.

The challenges the corporates are facing today are a combination of a unique economic environment, low capital and investing in private mortgage backed securities. We strongly suggest the NCUA maintain competition between corporates while assuring the risk management personnel are qualified while being held accountable by management, NCUA and their Certified Public Accountants. The benefits of fostering of competition and its advantages cannot be overstated.

The two tier structure of corporates is outdated, inefficient and unnecessary. A number of the wholesale corporates have the management and investment expertise, leaving US Central as an unnecessary cost burden. One challenge of this is many smaller corporates depend on US Central for their investments, with some having a matched book. As a result, the two tier wholesale corporate system is ONLY needed if the number and size of corporates remains the same.

We believe the corporates should be consolidated to a number that provides sufficient equity, management experience, and economies of scale which create value to natural person credit unions. In this model, US Central is no longer needed and in total credit unions would benefit via better pricing and less risk. We would welcome a study of the financial impact to the industry in the event that corporates were combined. The resulting economies of scale, combined with the value created, would, in our opinion, be considerable.

Corporates and the leagues must both understand that scale does matter and the future success of the credit union movement will be partly based on the efficient delivery of our products and services.

Corporate Capital

In terms of Investment Authority, some of the corporates have more stringent investment regulations than natural person credit unions in Illinois. Clearly, the rating agencies failed the credit union system and corporate America. Congress will undoubtedly take action to address the problems in regulation that we are facing today, but in the end the industry must address this issue.

It is our belief that NCUA should not alter the investment regulations but implement a **unique** and sophisticated risk based capital system for corporates. In the event a corporate wants to assume more credit risk in the investment portfolio, then a commensurate level of equity must be allocated. Such an approach would ensure adequate risk / return analyses are being conducted while requiring NCUA and the Accounting industry to review the management of the risks being assumed.

If risk based capital is not going to be implemented, then we are in favor of greater limitations on corporate investment authorities including concentration limits. The use of private mortgage-backed securities has generated massive losses to the system and in a risk based model, the percentage composition of this investment type in our minds, would be significantly reduced.

The capital structure of corporate credit unions is vastly different than natural person credit unions in terms of type and required percentages. Corporates clearly had inadequate capital for the risks being assumed. It is our belief that corporate capital should be divided as follows.

Perpetual Paid In Capital

RUDE

Term Paid in Capital

NCUA should develop risk based net worth ratios based on the above levels of equity. Clearly, Perpetual Paid in Capital and RUDE would qualify as the GAAP Tier 1 level. The Perpetual Paid in Capital should be saleable from one credit union to another and can't be redeemed unilaterally. NCUA should calculate the risk based net worth based on both of these to generate the Tier 1 ratio.

Commenting on a level for this ratio is extremely difficult without understanding the risk based calculations. It seems that a 4% level seems adequate, while increasing the Tier 2 to 6% by using Term Paid in Capital. If a corporate credit union chooses not to have Term Paid in Capital, then RUDE and Permanent PIC must be at least 6%. The corporates would then have levels of pricing which include the level of ownership in the corporates. We would suggest the following.

Permanent PIC Level Pricing
Term PIC Level Pricing – Maximum Term of One Year
Standard Pricing – PIC Investment is not required

By having three levels of pricing, credit unions can join more than one corporate to diversify their investments, yet not have their equity stake at risk. Management of each natural person credit union would have to perform its own due diligence to decide on the corporate commitment. Requiring every credit union to have permanent PIC would unduly concentrate risk in any given corporate and would disincent diversification.

All natural person credit unions as a normal course of business believe and support diversification of their deposit and asset portfolios. As a result, NCUA should make this option available on multiple levels. The losses being booked by natural person credit unions are massive – a direct result of the assessment and Capital Share losses. The recapitalization of the corporates will only occur if credit unions have options AND believe the management of the corporates are managing the risks effectively. The events of 2009 will force us to be very selective of our PIC contributions.

The calculation of the capital ratio should be based on the average daily balance of assets for each quarter, calculated on a rolling twelve months basis. Due to the seasonality of share balances, the rolling period is needed to accurately measure the true net worth ratio. Please note this calculation should be based on assets and not shares. The balance sheet must be seen in its entirety and the industry should not create an incentive to assume leverage (debt) to increase capital ratios.

The time frame to build the recommended capital ratios is an extremely difficult question to answer since we know neither what the calculation will be nor the futures losses corporates could be taking. Our comment would be the time line needs to be conservative and allow flexibility to adapt to market conditions. Forcing corporates to downsize their balance sheets, reduce investment rates or increase fees is not in the best interest of natural person credit unions.

Permissible Investments

The permissible investments should not be changed in their current format providing a risk based capital formula is deployed and required capital ratios are increased. Most natural person credit unions could never afford the investment expertise that corporates provide and as a result the restrictions for natural person credit unions should be more stringent. At the same time, it is abundantly clear that the credit risk portion of these investments was not modeled properly or effectively. In hindsight, the reliance on rating agencies was misguided and naive. When corporates assume more credit risk, the due diligence must address this risk and its impact on Tier 1 and Tier 2 capital ratios.

Credit Risk Management

Corporates are one of many industries and organizations that were "duped" by the rating agencies and Wall Street. In the future, rating agencies should be used to evaluate the risk of the investment, provided that the risk based capital reserves must be based on the lower of the ratings provided. All investment purchases must have at least two ratings provided and the capital assigned as indicated.

The modeling used should address changing economic conditions and its impact on the relevant capital ratios. We all know that credit risk changes as the economy grows or contracts. Any risk management process should include changing risk spreads and its impact on equity, cash flow and income.

Finally, the interest rate risk modeling process MUST include Net Interest Income simulation and the modeling for this and credit risk should be made available to the equity owners of the corporate, whether permanent PIC or not.

Corporate Governance

The corporate governance section of the ANPR should generate a significant level of interest from credit unions. Let me take each issue one at a time.

- First, there should absolutely be a minimum level of standards for board members. The risk to the credit union movement is too high and concentrated to sacrifice having board members not understanding the business nor the risks involved. The board members should have a background in financial institutions or investments with some level of professional designations and a collegiate degree. The corporates will only increase in size and complexity and the industry should demand effective and knowledgeable board members.

- Second, term limits are a necessity so we do not have a complacent board who does not ask questions. Anytime someone is new to a board, the natural process is to ask questions. We all know the value of a vibrant dialogue so this would be created if term limits were required.

- Third, we emphatically disagree with the compensation of directors. This is truly a slippery slope and will jeopardize the uniqueness of credit unions. There are plenty of consultants who can add significant value to the corporate system that would understand the importance of volunteerism and not look to be paid. We must not connect competency with compensation.

- Fourth, the transparency of executive compensation is between the board and the executives. This is not and should not be part of the public domain. It could inhibit quality leaders from entering the industry. In the end, the performance of the organization is what matters and not what the executives are being paid.

- Fifth, in its current form, US Central does not have any representation from natural person credit unions even though we are bearing the costs of this problem. If the system structure includes US Central, then natural person credit union representation is paramount. Furthermore, this should be coupled with an outside director component. Neither the leagues nor CUNA should be on US Central's board since its makeup should be corporate executives, credit union executives and an outside representation. In terms of retail corporate boards the makeup should be capital shareholders and outside representation of a specific skill set such as investments. Our history has shown that the investment portfolios are what damaged corporate credit unions. It seems logical to me that each corporate board should have external representation of someone who has a deep financial background on investments.

One item not yet addressed is how the funding for the corporate stabilization has been applied. The breakdown of the current funding is as follows.

Corporate Credit Union assessment

Natural Person Credit Union assessment for those using the corporates for liquidity and payment services

Natural Person Credit Union assessment for those NOT using the corporates who must pay for the assessment

There are many privately insured credit unions that use the corporates who have not paid any money for the stabilization plan. As a former privately insured credit union, we do believe in the option of private insurance but feel this is an industry issue and ALL credit unions should support this plan. The absence of the private insurance industry's contribution is a disappointment and, frankly, is unfair. The best case for not contributing to the stabilization would be the credit unions that do NOT use the corporate system yet they are bearing the proportional cost. If history repeats itself, all credit unions or credit unions using the corporate system should invest in the resolution.

Once again, thank you for the opportunity to communicate our position and we look forward to a balanced resolution and a return to a more "normal" operating environment.

Sincerely,

Sean M. Rathjen
President / CEO

cc: Consumers Board of Directors
Illinois Credit Union League
Credit Union National Association