SELCO
COMMUNITY CREDIT UNION

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April 1, 2009

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

Re: Comments on Advanced Notice of Proposed Rulemaking for Part 704 Regarding Corporate Credit Unions

Dear Ms. Rupp:
Thank you for the opportunity to present the comments below to NCUA Board members about the advance notice of proposed rulemaking (ANPR) regarding corporate credit unions. This letter addresses several of the specific questions raised in the ANPR and additionally responds to the NCUA Board's invitation to comment on any other relevant issues pertaining to the corporate credit unions that have not been specifically raised in the ANPR.

A. Issues for Consideration

1. The Role of Corporates in the Credit Union System

Payment system:
It would be a mistake to further fragment the corporate system into functional areas. It can be argued that the corporate credit union system is already too fragmented since there are 27 corporate credit unions. It appears that there is room for consolidation which will drive efficiencies as well as facilitate oversight. Separating payment services will create the need for additional overhead and will create inefficiencies. It is doubtful that there are sufficient earnings in offering payment systems to support a limited business model for individual corporate credit unions.

Liquidity and liquidity management:
Corporate credit unions are an important source of liquidity and play a vital role to fulfill the liquidity needs of their member credit unions that are without access to other sources, such as Federal Home Loan Bank. There are a number of controls that the NCUA can and should put into place to ensure that corporate credit unions liquidity is not threatened or compromised for the protections of natural credit unions. These controls should include restrictions on the types of investments, appropriate modeling, and liquidity contingency plans.

Field of membership issues:
Corporate credit unions' fields of membership need to return to more narrowly defined geographic FOM's similar to the Federal Reserve Bank regions. The corporate competition, on a national level, has not worked and has contributed to the risks taken by corporate credit unions.

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Expanded investment authority:
While having expanded investment authority has provided corporate credit unions with the tools to effectively manage their balance sheet, it has also led to the current crises. Prudent investment restrictions should be placed on risky investments.

Structure: Two-tiered system:
There is no longer a need for a wholesale corporate credit union such as US Central. Many of the services and products are duplicated within the current system. This business model is highly inefficient and redundant.

2. Corporate Capital:
   The issue of corporate credit union capitalization is a significant factor in any proposed restructuring and reform. The corporate credit unions' capitalization must be risk-based and have a minimum requirement relative to the level of risks. The corporate credit unions should not be allowed to transfer this risk to natural credit unions nor to the NCUSIF. Natural credit unions should not be required to contribute capital in order to purchase services and products from corporate credit unions.

3. Permissible Investments:
   It does not make any sense that a corporate credit union can make investments that are prohibited for a natural person credit union. It even makes less sense that natural person credit unions must absorb a loss over which they have no control. Thus, clear rules and limitations should be in place to significantly limit this punitive result.

4. Credit Risk Management:
   The NCUA should require more than the current one agency rating for an investment and require additional stress test modeling for proper credit risk management. In requiring multiple agency ratings, the lowest rating should receive the heaviest weighting. It is clear that in the current environment of sole reliance on an agency's assessment has failed.

5. Asset Liability Management:
   The central corporate credit unions should be required to follow the same stress test and ALM modeling that is required of natural person credit unions. This seems like common sense.

6. Corporate Governance:
   The level of expertise on the corporate credit unions boards has not matched the levels of risk in the corporate system. There should be a minimum of standards established to be a board member. The NCUA requires natural credit unions boards be trained in certain regulatory subjects, then board of directors of corporate credit unions should be required to receive training that is appropriate to their duties.

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B. Request for Comments:

NCUA failed in its oversight of the corporate credit unions and U.S. Central, particularly when considering they have staff on site. It is extraordinary that without warning, and in a matter of weeks, the corporate credit union system could impair the insurance fund by 69%. The NCUA must have the resources and competency for adequate oversight for which they are charged. The NCUA must do a better job at policing its own oversight. You can make all sorts of changes and have all sorts of rules and still see BernardMadoff-type results when you don't enforce them.

What about merging or consolidating some of the central credit unions?

Why not revise the Credit Union Act to make it easier for credit unions to convert to a mutual savings and loan institution so they can remain viable and avail themselves to the many benefits and opportunities afforded other financial institutions?

The NCUA Board's current corporate credit union stabilization plan is structurally flawed and will cripple the future of the credit union industry by placing too much of the burden on natural person credit unions, most of which did not contribute to the problems. The NCUA's decisions did not include comments nor solicit ideas from natural person credit unions prior to its unilateral decision to impair the NCUSIF and cause significant deterioration to the capital of many credit unions that are facing their own issues relating to losses associated with present economic conditions. The NCUA's unilateral decisions layer an overwhelming burden on many credit unions that cannot easily grow capital because of continuing losses as well as the inability to access secondary capital or the limited ability to grow consumer loans in this environment.

Further, the illogical cap limits associated with business loans further cripple natural person credit unions' abilities to grow capital. What's ironic is these unreasonable caps are the product of lobbying by the very institutions that are primarily responsible for the current financial crisis.

The NCUA should focus more on ideas that have less impact on natural person credit unions, e.g., revising the Mark to Market rule, being more aggressive for TARP funds, etc. than on playing politics by creating unnecessary noise about keeping the solution within the credit union system. Many industry leaders view the NCUA's resistance to TARP as a means to thwart consolidation of the regulatory agencies. In essence, a self serving motivation rather than being in the industries interest. This is the time to be bold and many of the prideful moves the NCUA amount to a death sentence on many credit unions. It's time the NCUA considers the real impact of its unilateral decisions and stop marketing its moves as having no direct impact on credit union members.

Contrary to your stated opinion, credit union members have been directly impacted by NCUA's failure. Nationally, credit unions are lowering dividend rates to restrict growth and preserve the capital that NCUA has eroded. The reduction in force, branch closures, increases in fees and other survival tactics are damaging the strategic and competitive position and threaten the viability of

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the credit union industry. NCUA has created irreversible damage, placing the industry at great reputation risk.

It's amazing and incomprehensible to me is how many institutions that are clearly responsible for this situation are getting massive amounts of federal funds to help them restructure their balance sheets that will, ultimately, give them the ability to compete on terms more favorable that what credit unions can afford. It's time for some hard inward looking questions and solutions that involve outward looking solutions.

Further, how is it possible the Corporate Credit Unions are able to deposit so little in relation to risk exposure? The NCUA must revisit how little corporate credit unions are required to keep on deposit with the NCUSIF in relation to the number of institutional members versus the actual exposure and risk they create within the system. If the conservatorship of US Central & WesCorp does not represent a catalyst for real change in this area, I don't know what event would rise to such a level.

Credit unions need the assurance that there is a reasonable cap on their NCUSIF obligation.

What is the status of the TARP money to address corporate and natural credit unions needs?

Why doesn't the NCUA require the CLF to issue a capital note to US Central and have U.S. Central and the other corporate repay the note?

What about repayment of the capital note? Who and when will it be repaid and how will the funds find their way back to the natural person credit unions?

Please contact me should the NCUA Board Members have questions concerning these comments. I am available for clarification or elaboration.

Sincerely,

J Robert Newcomb