



The Honorable Michael E. Fryzel
Chairman, National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

April 2, 2009

The Honorable Rodney E. Hood
Vice Chairman, National Credit Union Administration

The Honorable Gigi Hyland
Board Member, National Credit Union Administration

(sent via e-mail to regcomments@ncua.gov)

Re: Comments on ANPR for Part 704

Dear Chairman Fryzel, Vice Chairman Hood, and Board Member Hyland:

Mutual Savings Credit Union (Atlanta) appreciates the opportunity to comment on the ANPR for Part 704. We must say at the outset that given the recent turn of events in the corporate credit union world, we are extremely troubled by the poor management and governance practices at a number of these institutions – at best these practices can be described as reckless and careless. The magnitude of loss is shocking and the adverse financial impact to individual credit unions and their 90 million+ members is significant and hurtful.

When we all committed to funding the share insurance fund none of us at the natural person credit union level could have imagined that it would be used to eventually bail-out some or all of the corporates – obviously we have all been quite naïve in expecting that it would be used for retail NPCU situations. Additionally, our equity investments in corporates (directly or indirectly) were placed expecting management and governance practices would be such that our investments would be safe and secure. While many in our industry want to debate NCUA actions and loss estimate valuations – the sad fact remains that significant loss has occurred (no matter what model is used) and in an amount that is well beyond an acceptable risk tolerance level for the business purposes these entities were created to satisfy.

As difficult as it is to suffer the financial burdens of this calamity, our greatest disappointment, however, is that the trust and faith placed in people to be honest, hard-working, intelligent, decisive, and member focused has been spurned. We have presumed for a long time that people in the credit union movement, especially those in leadership and governance capacities, would do the right things for the right reasons – somehow this fundamental philosophy morphed into something quite different at a number of these corporates.



We suspect that regulators have recognized the need for regulatory reform for some time – the structural and risk issues raised in this ANPR did not just pop-up over night. Undoubtedly, industry lobbying efforts prompted more by self-interest and self-preservation probably kept necessary change at bay much longer than what we now see as long over due. Please be as prudent as possible in assessing the input (and sources) you receive on this matter. We believe the great majority of NPCU's desire a regulatory framework which provides more certainty, more clarity, more transparency, and more accountability. Sensible change promoting these needs would seem to be beneficial to both regulators and the 90 million+ credit union members we serve.

Response to Specific Areas of ANPR for Part 704

Payment Systems and Other Essential Service Needs Issue

We need a provider of the following core services: payment processing; direct settlement; coin & currency ordering; investments (short & long term); borrowing (short & long term); official checks/money orders and security safekeeping.

We might have occasion to utilize non-core services such as consulting in the areas of regulation, asset/liability management, investment management and interest rate management – these needs are much more variable and available from a multitude of providers.

We prefer to have the option to obtain our core services from one provider, as is the case currently. It is difficult to imagine that a “payments only” business model would be justified economically. NCUA concern seems to be focused on the risk management issues related to the offering of multiple services. Rather than restrict the services offered, regulation should describe the various risks, specify how these risks are to be measured and quantified, declare the frequency and manner of reporting these risks, and how much capital will be allocated to these different risks. Hopefully, a risk-adjusted capital allocation methodology will be part of the new regulation.

Liquidity Issue

We rely on our corporate to be the source of back-up liquidity (which has only been utilized for short-term gapping purposes) for both short and medium/longer term needs. This is an essential need – we have no place else to go. This product/service should stay at the corporates.

Obviously, this would require surviving corporates to have their own back-up liquidity sources (other than US Central as we're hopeful that you will eliminate that tier). Can the surviving corporates be given direct access to the CLF, the Fed etc... so they might have necessary back up liquidity?



Field of Membership Issue

It would appear that granting national fields of membership to corporates did nothing but hurt most of the NPCU's they were intended to serve directly and our 90 million+ members indirectly. A number of these corporates did nothing more than use the expanded field to pursue selfish and reckless strategies with little or no regard to the overall integrity, soundness and strength of the overall credit union industry. When handed the bill all of us are now receiving for this economic carnage it is difficult to accept that any claimed benefits such as higher rates or expanded service offerings overrides the down-side outcome we have experienced. We support going back to regional/geographic FOM's – certainly you could have more than 1 corporate designated to serve a particular area to foster reasonable competitiveness and selection of the best value proposition. We believe this would tend to motivate some or all corporates to seek ways of working with other corporates to develop product service partnerships and efficiencies that would benefit the NPCU's they serve.

MSCU would like the flexibility to have 2 corporate relationships (although we may only have one, depending on capital contributions required).

Expanded Investment Authority Issue

We are not in a position to offer an informed view. NCUA is undoubtedly in the best position to make an unbiased decision here – you can look at what the track record of performance is. Presuming that there is a risk-based capital allocation methodology introduced, you can probably retain expanded investment authorities provided the capital allocation discipline accounts for different types of class and term risks – this also assumes that the corporates fully understand the capital model and will use it correctly and report results timely and honestly.

We support Investment Authority privileges that are the same as other financial institutions such as banks (this would create a level playing field for all).

Structure Issue

Based on our recent experience, we see no reason to retain the 2-tier structure. The capitalizing of 2 tiers is economically inefficient – this has been worsened by the actual losses created at US Central. While it could take some time to organize and structure, the activities and functions performed by US Central should be moved to other retail corporates. NCUA should know which corporates have the capacity and expertise to take on these additional activities. We would not be comfortable with the corporates resolving this issue themselves and believe strongly that regulatory involvement is required and absolutely necessary.

Corporate Capital Issue

It seems to be a certainty that increased capital levels will be required at the corporates. Hopefully, NCUA and our industry can move to the Basel model. All financial institutions are in the same business. We should adopt both the minimum capital and risk-based allocation standards at the NPCU level too – this would seem to create a level playing field when comparing performance. This is what our members deserve and expect.



Permissible Investments Issue

As the ultimate regulator for this industry, NCUA needs to make the call on this one. From our standpoint, the current crisis is a direct result of allowing some corporates authorities to do things that they were incapable of effectively managing. NCUA is in the best position to ascertain whether this was because of stupidity, recklessness, investment types, inadequate measuring/monitoring/reporting rigor or all of the above. Perhaps we should adopt the same permissible investments banks are allowed – provided NCUA has confidence that proper controls are in place and will be used correctly.

It seems that many of the corporates are holding part of NPCU’s investments – since this could represent a majority portion of deposits held for the short term, is there a benefit to limiting expanded permissible investments to the short term but not the medium to long term?

Credit Risk Management Issue

Good credit risk management entails a lot more than having a rating. The shortcomings of the rating agencies have been debated for years – they just haven’t goofed up for the last 2 years. It is silly to rely on only one determinant, especially when it has been recognized that weakness exists. Sound credit risk management includes being sector and term specific in addition to establishing single name and sector limits. It includes gathering and assessing information from multiple sources and making judgments based on what you find. It includes establishing “early warning” signs (such as adverse moves in credit spreads, analyst reviews/comments, industry events/actions/results) and developing action strategies that will be followed to mitigate the impact of adverse credit risk developments. Good credit risk management is a pro-active activity that consistently searches for new/current information that can add value to an original assessment and decision.

This is a major area for reform at many of the corporates. As to what levels various limits should be established at – corporates need to determine this based upon their capital levels and how much capital they are prepared to place at risk for any sector/single name exposure. If they lack the expertise in evaluating and determining these issues then they need to hire somebody who can or be prevented from participating in this activity. The quality of this endeavor should be reviewed and rated at each NCUA examination. We do not believe NCUA should establish specific limit levels for corporates although we acknowledge that NCUA may want to establish some upper maximums based on size of the capital base (i.e. no sector shall comprise more than 20% of risk-adjusted capital, no single name should comprise more than 3% of risk-adjusted capital, as examples).

Asset Liability Management Issue

Given the events that have recently transpired it is painfully obvious that required modeling and stress testing be re-instated. It is very difficult for us to be model or stress test specific as we do not have the experience of the failures that NCUA has been involved with. We think NCUA is best able to identify necessary modeling and stress testing based on a review of why these failures occurred and what might assist in preventing these things from happening again. While we are certain NCUA will require more rigor in this area, that won’t address the failure of



management/boards to take appropriate risk mitigation/elimination action. If NCUA is concerned about safety and soundness then you might consider mandating that action is required if required stress testing produces results which violates any maximum exposures/limits established. This would establish greater accountability which we are keen to see in any new regulations. Sound asset liability management policy and practice should be an in-house skill not reliant on regular 3rd party involvement. We note that most corporates offer ALM consulting services to the NPCU universe – we suspect that the expertise is already resident in many of the corporates – perhaps it isn't being directed/utilized to fullest extent possible. NCUA is fully capable of reviewing/rating ALM policy and procedure during the normal examination process.

Corporate Governance Issue

This is an area of great concern and interest to us as it appears that lack of sound corporate governance and the willingness to act decisively and independently is a major contributing factor to the magnitude of losses created. NCUA is looking for suggestions whether to require “appropriate expertise” and “independence”, establishing term limits, allow/permit compensation etc. We believe the industry has abdicated its responsibilities in this area and unfortunately we probably need some regulatory requirements that will force necessary change in this area. If NCUA establishes expertise and/or independence standards we would also hope that directors be required annually to certify that they understand their fiduciary responsibilities (and liability) and that they will devote the time and attention to fully execute these. We think that allowing “outside” directors to be elected and compensating some or all directors is beneficial (not withstanding the increased financial expense burden) as it will add needed emphasis on this incredibly important function (we don't have to compensate at the same level as the “for profit” world – compensation could range from \$500 to \$1,000 per month, depending on size of institution, duties/assignments of each director etc). Most importantly, every board needs to develop much more rigor around its activities and be much more upfront with director candidates about what is required and how much time needs to be committed. Potential candidates could receive a much more informed view upfront of what is expected and then decide whether they are in or out. Additionally, each board should be required to develop a short annual plan of objectives it wants to achieve so that they can review accomplishments and share these with examiners. The examination process should include an assessment of board members, their activities, a review of the annual plan and achievements, and review of a basic crisis management plan which would briefly detail how and what board members will do if a crisis event occurs. Some sort of continuing education requirement should be required – we suggest 8 hours of general governance or committee specific education each 2 years.



Response Deadline Issue

NCUA has stated a strong desire to hear from NPCU's on these regulatory change matters with a deadline of April 6. With the turmoil created by the developments in the corporate credit union segment, we think that most NPCU's have been devoting a majority of their time dealing with the adverse financial matters which have time sensitivity and urgency. There has been too little time to consider the regulatory change issues raised in this ANPR. Consequently, we recommend that NCUA extend the response deadline by 30 days to May, 6, 2009.

Sincerely,

J. Michael Bryan
President & CEO

Thomas L. Gleason
EVP & COO