



# SIoux EMPIRE FEDERAL CREDIT UNION

2073

P.O. Box 90240 • Sioux Falls, SD 57109-0240

April 2, 2009

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

RE: Comments on ANPR for Part 704

Dear Board Members,

Let me preface my comments by saying that these statements do not necessarily represent the opinions of my Board of Directors, any committee members, my management team or the Credit Union in general. Rather the following statements are made in their entirety based on my opinions only.

I have been in the Credit Union movement since 1985 and have served on the Supervisory Committee and the Board of Directors of a Corporate Federal Credit Union. In general, I have been very supportive of the decisions NCUA has made in this time and place of the evolution of the Credit Union system, given the information and options available to them. I'm unable, or maybe better said, unwilling to comment on the entire ANPR, but I will lend my opinion to areas that are of concern to me and what I believe to be key in the continued success of our Credit Union's ability to offer high quality, low cost services to our members.

## 1. THE ROLE OF THE CORPORATES IN THE SYSTEM

### **Payment Systems**

Much of my Credit Union's payment system needs have evolved into the electronic settlement area. Although we still have a relatively high volume of share drafts clearing and settling, we see the volume of our ACH, ATM and debit card transactions increasing every year. I recognize that this business can only be sustainable by aggregation and therefore the shear law of volume.

While I would ideally prefer these processes to stay inside the Corporate model, I understand the drain on capital that they can cause. Structurally the only other model to roll this into that exists today is a CUSO. My concern with any type of a CUSO model is the change in the mindset of the business model. I'm concerned that the profit motive of a CUSO would cause the ugly head of greed to rear and warp the intent of spinning off this business from the Corporates. If there was a legal entity that could be created without the profit motive of a CUSO, still run by Credit Union system leaders and without the capital requirements of a financial institution, the majority of my concerns could be addressed adequately.

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## **Liquidity & Liquidity Management**

Corporates have excelled in this area, which is what I believe to be the number one reason they exist. Even though I look to my Corporate first for any type of service I need, liquidity-related or not, their first and foremost role that they should play is to provide access to credit and availability of liquidity. This is a double-edged sword though as I'm not willing to let all my excess liquidity sit in a Corporate system that is unable to pay me a competitive rate. I will repeat this comment later in my letter under the heading of Expanded Investment Authority, but I believe that with reasonable oversight and proof of adequate knowledge and monitoring systems, that we should not hinder the ability of Corporates to consider investments that will return higher yields, but maintaining liquidity as the underlying principal in all their decisions.

Let me state in greater clarity that I believe liquidity needs to also be defined as access to all types of credit too. I do not want to only be able to invest my excess liquid funds into the Corporate system, but I want to call upon them to grant adequate borrowing resources to operate my Credit Union and its related businesses. Case in point; my Credit Union has a wholly-owned mortgage origination CUSO that relies upon my Corporate for a substantial warehouse line of credit to fund mortgage loans. Please do not impact the ability of Corporates in general to facilitate the cash liquidity needs of their members, but their credit liquidity needs also.

## **Field of Membership Issues**

I commend NCUA for recognizing, if not fully admitting, that the lifting of the restrictive field of membership requirements "may" have contributed to the current status of the Corporate network.

The concept of going back to a model with 50 different Corporates based on FOM single state restrictions, or even a geographical FOM restriction similar to the FHLB model is totally inappropriate given the expanded FOMs now in place with the majority of natural person Credit Unions, along with numerous other reasons. On the other side of the spectrum, I am firmly opposed to the idea of a single Corporate for the entire country. We need to let the pendulum swing back towards the middle. I'm not going to definitely say that I know what the ideal number of Corporates should be, but I will go so far as to say I believe it is in the range of 3-6. I cannot begin to fathom the complexities of shrinking our numbers down to this range in a short time period without causing massive disruptions in the manner and ability of the Corporates to offer their services to us. To that end, I strongly encourage NCUA to allow the network to gravitate to this equilibrium number on its own without intervention and regulation by NCUA or any other governmental entity. As long as safety and soundness principles are abided to, let the network attend to itself.

We need to create a structure that focuses the concern of competition from without, not within. I believe there are adequate sources of competition for a natural person Credit Union's business from the for-profit sector such that all Corporates should look to that sector as their primarily competitor, not each other. Whatever the Corporate network looks like at the end of this transformation, we must foster greater cooperation amongst all the remaining Corporates by mandating, by regulation if necessary, a non-competitive type of FOM.

Don't misunderstand me; I'm not saying that all competition needs to be eliminated between Corporates. Complacency and the loss of a driving, creative spirit could ultimately spell the demise of Corporates in general. Rather we need to insure that Corporates have the flexibility and desire to respond to their member's requests and need for new services. Natural person Credit Unions must be afforded a method by which they can have the flexibility to move or transfer their primary Corporate membership (and the related membership capital) to another Corporate if one does not offer the types or qualities of products and services that they demand. With this option intact, it should entice the Corporate leadership to stay sharp and responsive instead of lethargic and non-responsive. The best example of how to effect this change that I have read to date is the model of a "preferred" Corporate, similar to the model initially proposed by Members United Corporate FCU.

### **Expanded Investment Authority**

As I mentioned previously, I firmly believe that the complexities of the demands of natural person Credit Unions today mandate that Corporates be given the opportunity to qualify for expanded investment authorities. Without it, the Corporates would be so completely handcuffed into simple pass-through investments that pay such a low yield, that all natural person Credit Unions would be forced to look outside the Corporate network to invest our excess liquidity.

I believe that with reasonable oversight and proof of adequate knowledge and monitoring systems, we should not hinder the ability of Corporates to consider investments that will return higher yields, but maintaining liquidity as the underlying principal in its decisions. It may be prudent to require a greater number of levels of expanded authority than currently exist. Logically it would be fair to assume that if a Corporate is requesting a higher authority level, they must exhibit the expertise to effect these decisions in a prudent manner. It would also be fair to say that a progressively higher level of capital should be imposed upon those attaining a greater investment authority level too.

### **Structure: Two-Tiered System**

While our investments and our economy was cruising along, the current two-tiered system was working fine, and any significant issues were glossed over. It is only recently during this financial hiccup that the weakness in the current structure has been exposed. Because of this, I believe it is time we indeed change our two-tiered system to a single tier.

## **2. CORPORATE CAPITAL**

I cannot comment effectively on the entire issue of corporate capital from the side of the Corporates, but I will attempt to offer my opinion on it from the natural person Credit Union side.

If we adopt and move forward under a “preferred” Corporate model, the amount of capital injection required by a natural person Credit Union should be the same regardless of the Corporate they elect as their “preferred” Corporate. This capital should be considered required and permanent. Let’s erase any notice requirement for withdrawal then and treat this deposit similar to the NCUSIF deposit, basically mandatory, but that the natural person Credit Union can pick which Corporate to invest it with or move it to.

The single item I will state about the level of required Corporate capital is that it clearly needs to be risk based, but still significantly lower than natural person Credit Union requirements as they are still primarily chartered for liquidity purposes and not to become hoarders of their member’s capital. Every Corporate may have a different required level of capital due to their investment authority too. One size does not fit all in this example.

### **3. PERMISSIBLE INVESTMENTS**

As I stated earlier, natural person Credit Unions demand market rates for our deposits. If Corporates are limited to certain types of low paying investments, natural person Credit Unions will eventually migrate all their liquidity out of the Corporate network. That is unacceptable. If a Corporate exhibits the necessary expertise and the appropriate level of capital, they should be granted an expanded menu of permissible investments. I also expect NCUA to have the level of expertise within its OCCU department to monitor and gauge a Corporate’s success in these areas too.

### **4. CREDIT RISK MANAGEMENT**

Clearly the risk rating agencies did not accurately foresee a financial event of this magnitude, but to be fair, nobody did. Until such time that another appropriate manner of measuring and assigning credit risk, I’m afraid we must continue to use these agencies. But as the market brings forth new tools, NCUA must be proactive to implement them too.

### **5. ASSET LIABILITY MANAGEMENT**

My only comment here is that with the current crises, many things will be changing rapidly in this area. Corporates and NCUA must be exceptionally in tune with these changes and be amenable to changing their benchmarks given new tools for identifying and measuring these benchmarks.

### **6. CORPORATE GOVERNANCE**

Basically the Corporate governance model has worked well so we do not need to totally overhaul this, but some observations are worth noting.

I do not believe a minimum NCUA-mandated qualification level should be imposed. All Corporates mandate some level of qualification now, let them continue that. NCUA may have the ability to review and offer input, but not control.

Continuing education should be required for all volunteers, but on the individual Corporate level, not mandated by NCUA.

The outside director proposal has its merit, but I would allow it to be up to each Corporate to determine if it wishes to adopt that type of position on its Board. I would **REQUIRE** NCUA to place a “maximum number of outside director” limit however. At no time should these outside directors hold any type of majority position on the Board, nor should they ever hold a Board officer position. I’m very concerned about the integrity of the member-owned, member-controlled aspect of a Corporate. In the same breath, I understand that expertise and assistance can be afforded to the Corporates by these persons too.

Term limits should be outside the control of NCUA. Every Corporate should set their own policy in this area.

Compensation is a touchy issue, both on the natural person Credit Union level and the Corporate level. I am comfortable with NCUA mandating access of Corporate Board members and Corporate CEOs compensation details. This information should only be available to its members with some sort of binding stipulation that it remain in the possession and control of the member Credit Union. It does not do anybody any good to have it publicized in any manner other to the member-owners of the Corporate.

Thank you for allowing us the opportunity to chime in on this exceedingly important time of the evolution of our Credit Union system. In all your deliberations, please maintain a vigilant stance against the consolidation of our insurance fund and our regulator into some super-regulator. Never forget we are member-owned financial cooperatives established by our members for their direct benefit. If we lose sight of this basic tenant, we risk losing our identity in a sea of confusion and misinformation, never to stand on our own again.

Sincerely,

A handwritten signature in black ink, appearing to read "Jen Jorgensen", with a long horizontal line extending to the right.

Jen Jorgensen  
President