



April 2, 2009

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

Re: Advanced Notice of Proposed Rulemaking (ANPR) to 12 CFR Part 704 regarding Corporate Credit Unions

Dear Ms. Rupp:

Freedom First Federal Credit Union, Charter #11111, welcomes this opportunity to comment on the recently issued ANPR to Part 704 of the NCUA Rules and Regulations.

### **A Corporate System Should Continue**

We believe that a national corporate system should continue to operate so as to provide much needed specialized services for certain natural person credit unions (NPCUs). However, we suggest a much modified structure whereby there would be one central corporate credit union chartered for and limited to loan and investment services. All member NPCUs should have direct access to the central corporate. A network of regional corporates or corporate CUSOs— possibility only one such provider per time zone – would be chartered for and limited to settlement and payment-type services. Such down-sized structure would be more efficient and yet have the capacity to provide fair-priced financial services, especially needed for small NPCUs.

### **Investment Restrictions**

We suggest that the central corporate credit union should be chartered for and limited to loan and investment services. We normally do not support rules that micro-manage investment authority; however, due to the experiences of the last few years with regard to high-risk investments that obviously were difficult to risk-rate, we suggest that the central corporate investment authority be restricted to low-risk investments, e.g. non-MSB securities or fully-secured, government-back obligations.

### **Share Insurance Options**

Uninsured deposits are a form of alternative capital now available to the commercial bank industry. We believe that credit unions should likewise have access to such alternative funding source because credit unions under PCA are required to meet bank-like capital requirements. We also support the concept of optional excess share insurance, possibility paid for by the member credit unions, so as to reduce the risk to the NCUSIF and, by extension, reduce the ultimate risk assumed by NPCU investors. Such change in the costs of share insurance and risk reduction could stimulate a revival of the corporate system, even considering the current pushed-down costs to NPCUs.



### **Risk-Based Capital**

We are in favor of risk-based capital, and possibly, additional sources of alternative capital. This is not a new concept but maybe now is the time to put it in place. Access to alternative capital growth strategies has high importance for credit unions. Therefore, regulatory reform is needed to gain access to secondary capital. A relationship exists between business strategy and structure and the ability to attain capital growth. For instance, the ability of sound, well-managed credit unions to grow rapidly should not be restrained by PCA. If credit unions needed to grow to serve growing demand from members or to otherwise respond to changes in business that require growth, the credit union would have to consider a change in charters to attain access to alternative capital.

### **FOM**

The corporate system we propose in this letter assumes that all NPCUs would have membership rights to the corporate central credit union for investment and loan services. The second-tier corporates would serve only those credit unions within its prescribed regional, or FOM. This would, as we envision it, be a more responsive system with less incurred risk. Although competition and open FOMs have stimulated innovation in our national corporate system, increased risk assumption has also been a byproduct. A more service-specific and FOM-specific structure would also reduce such risks.

### **Conclusion**

Freedom First supports the corporate system as an alternative that should be available to NPCUs, especially small credit unions. We also recognize that changes must be made to avoid the possible reoccurrence of the current fiscal meltdown of the share insurance fund. The ideas we propose in this letter may be a compromise that will mitigate these risks and yet still provide for optional, yet necessary, financial services through a new, more efficient and service specific corporate system. Thank you for the opportunity to offer our ideas.

Very sincerely yours,

A handwritten signature in black ink, appearing to read "Paul Phillips".

Mr. Paul Phillips, President/CEO  
Freedom First Federal Credit Union

Cc Chairman Michael Fryzel  
Vice Chairman Rodney Hood  
Board Member Gigi Hyland  
Virginia Credit Union League