2078

FINANCIAL Plus
Federal Credit Union
G-3381 Van Slyke Road • P.O. Box 7006 • Flint, MI 48507-7006 • (810) 244-2200 • (800) 748-0451 • www.financialplusfcu.org

April 2, 2009

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

Re: Response to Advance Notice of Proposed Rulemaking (ANPR) for Corporate Credit Unions

Dear Ms. Rupp,

Financial Plus Federal Credit Union is a member of only one corporate credit union. Response to the ANPR questions and comments is based on experience with Central Corporate Credit Union of Michigan (CenCorp). As the CEO of a natural person credit union, I don't feel that I have enough knowledge and experience in the actual operations of corporate credit union, especially U.S. Central to answer several of the ANPR questions. For that reason, I will not comment on all items.

1. The Role of Corporates in the Credit Union System.

Payment System.
Financial Plus utilizes many of the services that CenCorp provides, including overnight deposits, overnight borrowing, structured borrowing, settlement services, check payment services, ACH services, wire transfer services, and term investments.

CenCorp is dedicated to serving the credit unions of Michigan and therefore provides a valuable service to Financial Plus. CenCorp provides a convenient means for Financial Plus to centralize overnight deposits, borrow on an overnight basis, or longer when necessary. Settlement and fund transfer services are tied to the overnight account. It would be difficult to separate these functions and would cause considerable inconvenience to Financial Plus.

Payment services, on the other hand, could be outsourced to another provider. However, CenCorp provides this as a value added service. Prices are competitive and the financial business of Financial Plus is consolidated within the credit union system, something that we have always considered a positive. Payment services also contribute to CenCorp's bottom line and an offset to overhead, thus allowing CenCorp to provide competitive pricing on all services. Because of this, Financial Plus does not believe that a separation of payment systems and fund management services is necessary or desirable.

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Structured borrowing and structured investments could be eliminated without much disruption to credit unions. Structured borrowing has always been convenient through CenCorp, however with tight liquidity in the corporate system earlier this year, we have found the Federal Home Loan Bank to be convenient and competitive, as well. Term certificates are also convenient and competitively priced, though not imperative. Safekeeping of securities is a valuable service, but not absolutely necessary. However, I can't imagine that safekeeping adds much risk to the Corporates.

Liquidity and Liquidity Management
Providing liquidity to the credit union system is one of the most important roles of the Corporates. Because of this, it is important that Corporates effectively measure and manage cash flow. This requirement is no different than natural person credit unions, except that the Corporates provide a backstop to natural person credit union cash flow management, and must be available to fill withdrawal requests and short-term funding needs. Effective cash flow management can be supplemented by external borrowing sources, much the same as that of natural person credit unions.

Whatever cash flow measurement tools are available should be employed to ensure that liquidity is available when needed within the credit union system. The role of U S Central, as an aggregator of liquidity throughout the system, is instrumental in supplementing this valuable service provided by retail Corporates.

Field of Membership Issues
Financial Plus does not believe that national fields of membership should be eliminated, as they would still be available for certain state chartered Corporates. One of the issues that should be addressed however is Corporates that provide services to natural person credit unions without a contribution of capital. This creates not only an unfair advantage for Corporates that don't require a capital contribution in order to obtain certain services, but also is an unfair burden for the credit unions that contribute to the capital of the Corporate.

Expanded Investment Authority
Considering that the primary role of Corporates is to provide liquidity to the credit union system, expanded investment authority is probably not necessary. If expanded investment authority is retained, additional capital commensurate with the level of risk should be required.

One of the questions in my mind, although outside the scope of the questions asked in the ANPR, is why U S Central was allowed by the NCUA to invest in the massive amount of mortgage-backed securities that have caused their insolvency. Financial Plus, by choice, does not invest in mortgage- backed securities. This is not because there is anything inherently wrong with these securities, but Financial Plus holds a large percentage of its assets in residential mortgages. To invest in mortgage-backed securities would add additional concentration risk to its balance sheet. As one alternative, Financial Plus invested excess funds in CenCorp, only to have those deposits end up in mortgage-backed securities at U S Central. The NCUA examination process should not only measure the concentration risk of the credit union being

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examined, regardless if it's a natural person credit union, a Corporate credit union, or U S Central, but should measure the concentration risk of the assets in the entire credit union system. The current financial condition of U S Central makes it vividly clear that credit unions, natural person or Corporate, don't stand alone. We stand together as the credit union system, and risk should be measured as such.

Structure: Two-Tiered System
U. S. Central, as I understand it, acts as an aggregator for credit union assets, which flow through the retail Corporates. This aggregation allows the Corporates to create an economy of scale that may not be available if U S Central did not fill this role. For this reason, I ask that the NCUA thoroughly explore the repercussions of any action to eliminate U S Central, as they play a valuable role in the credit union system.

2. Corporate Capital

Core Capital
Core capital should be representative of the risk associated with each Corporate balance sheet, as determined by modeling tools and analytics. A one-size fits all approach will no longer work, which is now very clear. Requiring a risk based capital standard would seem an appropriate and logical response given what we know now.

Current regulation, NCUA Rules and Regulations Part 702.3 (e) (ii), allow the NCUA to require a higher minimum capital ratio for individual Corporates, based on a finding of significant exposure risk. I'm curious to know if NCUA imposed a higher capital requirement on U S Central or WesCorp, as both very obviously had significant market and concentration risk in their mortgage-backed securities portfolio (and possibly other asset backed securities), even if credit risk didn't appear a factor previously.

Any change to required capital for Corporate credit unions should be phased in over a period of one to two years, minimum. Please keep in mind that all new capital, undivided earnings, membership capital, or paid in capital must come from natural person credit unions. The impairment and recapitalization of the NCUSIF and higher credit losses due to the current economy have already put a strain on credit union balance sheets.

As noted above, Corporate services should be limited to members that contribute capital.

Membership Capital
It is the opinion of Financial Plus that withdrawal of membership capital should be conditioned on the Corporates ability to meet all applicable capital requirements following withdrawal. Membership capital for corporate credit unions should meet the Tier Two capital guidelines set for other financial institutions.

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Risk-based Capital and Contributed Capital Requirements
Core capital should be representative of the risk associated with each Corporate balance sheet, as determined by modeling tools and analytics. A risk-based capital standard will achieve a higher level of capital requirement, when appropriate. However, the minimum 4% capital requirement should remain.

Credit union asset size should determine the level of contributed capital. A credit union should not be required to provide a higher level of contributed capital just because they choose to support the Corporate with higher share balances than other credit unions. This may be a deterrent for larger credit unions and would also require higher capitalization deposits from small credit unions that retain all of their excess deposits at the Corporate.

3. Permissible Investments

As a natural person credit union with most of its assets in member loans, Financial Plus has no experience with most of the types of investments referred to in the ANPR. One area that we can comment on is subprime and Alt-A mortgages, which have no place in a conservative investment portfolio designed to provide safety and liquidity to natural person credit unions. As natural person credit unions strive to provide financial services to their members, the credit unions end up with plenty of Alt-A and unintended subprime mortgages in their loan portfolios. The Corporate network doesn't need to extend the risk in this area further.

As excess funds from natural person credit unions flow through to the Corporates, including U S Central, it is important to recognize that the primary responsibility of all entities that make up the credit union system should be to protect the funds deposited by credit union members, regardless of where they end up in the system.

4. Credit Risk Management

Considering the concentration of mortgage- backed securities in the investment portfolio of U S Central and WesCorp, it seems obvious that concentration or sector limits are needed. And don't forget to look at the balance sheets of natural person credit unions when considering this risk. How much concentration is wise to allow in the credit union system, realizing that the financial liability rests with natural person credit unions when everything falls apart at the Corporates? While real estate loans and securities have, over a long period of time, been considered to be liquid investments with little risk, we now have a better understanding of their true risk.

As to the reliance on the credit rating agencies to provide a risk rating for securities, shame on them for putting our entire financial system in jeopardy, and shame on us for not using our own common sense to question their ratings.

Having said that, the credit rating agencies are still in the best position to measure, monitor, and rate securities. However, as an industry we must not blindly rely on their ratings. When something fails the common sense test, red flags should go up to the industry and the regulators.

2082

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What fails the common sense test is the notion that a Private Label Mortgage Backed Security is as safe as a Treasury issue. How could we have been so blind?

5. Asset Liability Management

All available tools used to measure risk and identity trends should be utilized. However, the conclusion reached by performing these tests need to pass the common sense test rather than require uniform application. The current economy has taught us valuable lessons about risk management. These lessons will not be forgotten quickly.

6. Corporate Governance.

Directors of U S Central should be elected at large without consideration given to geographic area or credit union asset size. It is imperative that directors of all Corporates are qualified and understand the complex operation of Corporates. To assure that qualification criteria is weighed over popularity, additional regulation may be required.

Also, natural person credit unions must be represented in the governance of U S Central. As is clear in the current economic crisis, when Corporates fail, the financial responsibility falls squarely on the backs of natural person credit unions at the expense of their membership. The Corporates are nothing more than an extension of natural person credit unions. As such, this financial responsibility is not misplaced. However, without representation on the U S Central board of directors, credit unions have little ability to protect themselves and their membership.

In closing, Financial Plus would like to thank the National Credit Union Administration for the opportunity to comment on the possible restructuring of Corporate credit unions. Any regulatory changes made should provide for the safety and soundness of the Corporate network and enhance the Corporates ability to add value to their natural person credit union members.

Sincerely,

Jill Reno

Jill Reno
President/CEO