generations
federal credit union

April 2, 2009

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 2231 4-3428

Re: Advanced Notice of Proposed Rulemaking to 12 CFR Part 704

Ms. Rupp,

On behalf of the Board of Directors and management team of Generations Community Federal Credit Union, contained herein are comments and suggested recommendations to the recently released Advanced Notice of Proposed Rulemaking to 12 CFR Part 704. Thank you for allowing the network of credit unions to participate in this worthwhile process.

Corporate credit unions play an integral part in delivering value and services to natural person credit unions. Our reliance upon same are not only necessary, but in many cases, critical to our willingness and success in fulfilling commitments, strategic objectives, and initiatives benefiting our members. Through strategic partnerships, corporate credit unions provide assistance in delivering assorted payment processing systems, investment and advisory services, and provide a needed source of liquidity. Our institution has benefited from all the aforementioned services both electively and during times of need.

Over the last 18 months, the financial services industry has endured unprecedented challenges; namely institutional failures, contraction of credit markets, access to liquidity and more specifically, a loss of confidence and trust in the system. The debate will continue as to the cause and argued by many, the lack of foresight. However, now is the time for a measured commitment to spark innovative thought and actionable strategies addressing the needs of the credit union industry.

Recent actions by the NCUA Board to support the corporate credit union system, while viewed by many as excessive, arguably were necessary to impart confidence and provide a backstop for further uncertainties. From here, the challenge facing the industry is to forge forward with enhanced vision, improved corporate governance and resolve to improve operational effectiveness. Care, however, should encompass regulatory oversight and intervention, as overregulation may result in unnecessary consequences. To which, we are encouraged with the intent and purpose in evaluating the current corporate credit union system and offer the following comments and/or suggestions for your consideration.

The Role of Corporates in the Credit Union System

As acknowledged and recognized by NCUA, the corporate credit union system provides vital investment, liquidity, and payment system services to natural person credit unions. Many credit unions, especially those of smaller asset size, would face significant challenges without the services and assistance provided by corporate credit unions.

In keeping with this understanding, we feel efforts to significantly re-structure the existing corporate structure is unwarranted. Unforeseen or understood hardships incurred could disrupt access to services deemed critical to many credit union operations. Therefore, we offer the following input of specific requests contained within the ANPR by subject matter.

Payment Systems:

Our institution relies heavily upon our corporate credit union partner to deliver the following payment system services: Share draft processing, ACH origination, wire transfer, securities safekeeping etc. These services allow us to efficiently process member transactions in a cost-effective environment. Having the ability to provide these value-added services by the corporate enhances their service delivery commitment along with mitigating risks encompassing the enterprise.

Therefore, we do not recommend isolating payment services from other services offered by corporate credit unions. Furthermore, we disagree with the suggestion of considering a separate charter for these services. This would create additional overhead and loss of economies of scale in offering single-purpose product lines.

Liquidity:

In our opinion, liquidity services are a core service of the corporate credit union system. Management of each corporate credit union should decide the appropriate level of risk to assume, albeit within regulatory constraints, and manage liquidity risk judiciously. Furthermore, imposing limitations on cash flow duration models is not deemed necessary.

Another consideration to explore, relating to CLF access, would result in a more efficient utilization of the funding facility. Specifically, since natural person credit unions may utilize the corporate network as a conduit to the CLF for borrowing capacity, we suggest allowing the corporate system direct access to CLF funding. This would serve both systems with enhanced access; corporate credit unions would gain access to another liquidity source ensuring they meet the demands of their member's and natural person credit unions would have access to liquidity through a known provider with existing processes. In essence, corporates would no longer function as intermediaries, but rather, fulfill their primary purpose of providing liquidity.

Field of Membership:

We wholeheartedly disagree with eliminating national fields of membership for corporate credit unions. This would only serve to diminish competitiveness among surviving corporates, and could limit access to competitive service offerings throughout the system. Regionalizing membership may cause an unnecessary concentration risk of services to natural person credit unions along with reduced access to innovative solutions should the regional corporate fail to offer said services.

Expanded Investment Authority:

Employing the ability to augment cyclical rate environments with expanded investment authority has allowed the corporate system to enhance earnings spreads and hedge outlying return scenarios. Having the ability to proactively manage investment risk through divergent offerings benefits not only the corporate system, but also provides added resources for enhanced services and innovative offerings.

Eliminating these expanded authorities as a result of the recent economic disruption would be short-sighted and reactionary. As reported, the majority of current holdings carried the highest ratings from nationally recognized rating agencies at the time of purchase, where reliance is a part of, or component of pre-purchase due diligence. Ensuring the appropriate understanding along with expertise is, however, tantamount to the investment decisioning process. With that said, we encourage an ongoing assessment of qualification factors granting said authority to qualifying corporates. Furthermore, combined with an improved risk-based capital structure, periodic review and re-qualifications should occur when there are changes in personnel or types of investments not previously purchased.

Structure – Two-Tiered System:

The current corporate two-tier system in our opinion may pose continued concerns regarding systemic risk. Reliance upon one "wholesale" institution may render repeated risk concerns should future recessionary and economic retractions occur in the future. Spreading the risk amongst the remaining retail corporates would diversify the credit union system risk and create efficiencies in the system.

Replacing the services and systems currently in place with US Central may require additional access to resources and/or systems to accomplish this re-distribution. Therefore, the unwinding should occur systematically and over an extended time horizon as to not drastically impact the core services provided.

With the suggestion of allowing "retail" corporates access to the CLF, this would minimize their source of liquidity situation currently supported by the "wholesale" structure currently in place.

Corporate Capital

We are encouraged by NCUA's request for comments to evaluate and improve the capital structure of corporate credit unions. Furthermore, we also encourage the evaluation to include refining and/or recommending similar changes to the natural person credit union capital structure.

Our industries (natural person credit unions) average capital ratios have continually exceeded other federally regulated institutions, either as a result of expertly managing risk and driving earnings or from a lack of risk-taking. In either case, developing a structure, based upon risk, would enhance comparative transparency with other financial institutions and more accurately define the risks institutions undertake.

We feel the required capital limits established for corporate credit unions may require refining. More specifically, capital ratio risk tiers would establish parameters for addressing risk-weighted assets and more accurately reflect risk activities undertaken. Assigning weights for riskier structures would establish arbitrary risk caps, insulating concentration risk, thereby reducing systemic risk to the underlying investment portfolio and placing less capital at risk.

Regarding the question relating to membership capital, we believe member capital should emulate the services utilized by each credit union, similar to a relationship pro-rata approach with primary corporate relationships. However, requiring membership capital with every corporate affiliation a natural person credit union may have could impair risk diversification of service. For example, contracting for security safekeeping services solely would not in our opinion warrant a member capital account. Charging for specific services, as practiced today, encourages value comparisons.

Permissible Investments

It is our opinion that currently authorized and permissible investments by corporate credit unions remain unchanged. Having the expertise and ability to maximize returns and hedge potential future outcomes via current permissible investment vehicles benefits the system by providing more concrete earnings streams and predictable cash flows. Coinciding with the revision of risk weighted capital and corresponding risk weighted assets, concentration risk for less liquid investment vehicles could be administered. Limiting investment alternatives could further diminish the attractiveness of core investment services offered to natural person credit unions.

Credit Risk Management

One tool utilized during prudent pre-purchase due diligence (relating to credit risk) is evaluation of credit ratings. Due to the backing affiliated with agency issuances, credit ratings provide a mechanism used within the industry to provide some clarity and potential risks associated with the structure and the underlying collateral. Reliance upon more than one nationally recognized agency is just good business practices. However, purchase decisions should not rely solely on ratings but rather should be utilized as a component of the overall pre-purchase due diligence.

Requiring independent evaluations of credit risk should not be mandated. Although this information may prove useful, acceptance and agreement of critical assumptions and predictive models would need to be in concert to achieve worthwhile results. Current regulatory guidelines provide appropriate interpretation to effectively address the level of due diligence required for effectiveness.

Asset Liability Management

The use and development of “best practices” modeling is necessary for risk management. Mandating specific models would provide consistent application and comparable data results; however, we encourage utilizing tools and techniques developed to further address specific risks. Total return methodology is an industry recognized predictor of expected results and should be considered.

Corporate Governance

The ANPR proposes several items under corporate governance that we agree require evaluation. Namely, requiring the appropriate knowledge and/or minimum standard requirements in our opinion is necessary. These standards are best left to each organization to satisfy their governance needs. In addition members should comprise and represent their respective membership.

In our opinion, the discussion regarding term limits warrants further consideration. Continuity is extremely important but can be overcome with appropriate stewardship and experience requirements. The decision to implement term limits should be left to the corporate system.

Extending representation to "outside directors" may provide broader perspectives to strategic discussions but in itself may not improve overall corporate governance. If admitting "outside directors" is deemed beneficial, we recommend that decision remain with the corporate system.

Regarding requests for comments on board compensation and access to salary and benefit information of senior management, in our opinion this issue is not relevant to the underlying purpose of the ANPR. This subject has created quite the "buzz" in the media but is not comparable in either context or content for our industry.

Concluding Comments

Reliance on the products and services provided by our corporate credit union relationship is critical to our success. As provided in our aforementioned dialogue, although we agree that improvements and enhancements are needed going forward to the system, excessive changes resulting from over-reaction to current challenges would be inappropriate. The corporate system provides member credit unions with products to grow their business; services to enhance member value; and support when financial hardships are experienced.

Respectfully submitted,

Steve Schipull, CFO
Generations Community FCU