AEGIS Credit Union

USA Pride

April 3, 2009

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

RE: Comments on Advanced Notice of Proposed Rulemaking for Part 704

Dear Ms. Rupp:

Thank you for the opportunity to provide comment on NCUA's ANPR for Corporate Credit Unions.

For purposes of background, Aegis Credit Union, with assets of $9 million, serves a membership of approximately 3,200 families in Eastern Iowa and Western Illinois. Aegis is a member of three corporate credit unions including Iowa League Corporate Central Credit Union, Corporate Central, and Members United. We utilize many services from transaction clearing to cash management and investments.

The 99 basis point NCUA imposed charges consumed approximately 74% of our Net Income when we restated our 2008 financial statements to recognize those charges.

Our Board of Directors and I have reviewed the issues raised in the ANPR for Corporate Credit Unions. We would like to comment on several of those:

1. **The Role of Corporate Credit Unions in the Credit Union System**

   Payment System – We see no reason to attempt to separate payment systems from corporate credit unions in any kind of effort to reduce risk. We contend that payment systems, much like fee income in our own credit union, help to even out income flows during good and bad economic periods. Further, corporate credit unions have generally done an excellent job of mastering both payment systems and liquidity and investment services.

   Investment Authority – Even in early 2008, larger credit unions were actively reducing their exposure to their own corporate credit unions. They were able to make that call because they had investment professionals on staff. Small credit unions simply did not know enough to see that their corporate credit unions were in trouble. I bring up this point to remind you that the small credit unions rely very heavily on their corporate credit unions to provide expertise they could never afford to employ. We need our corporates to continue to be the experts on different investment vehicles. However, considering the way they have exposed the entire credit union system to risks that were far greater than we understood, we feel there should definitely be serious changes made. Beyond limiting the allowable investments of corporates, we feel there should be much greater oversight by NCUA. There also needs to be a greater cushion to absorb any losses before the NCUSIF is ever accessed again.

   Two Tiered Corporate System – From our perspective, we do not see the need for a two-tiered corporate system. However, it would seem that matter would be better addressed by corporates themselves, as they use the second tier. Our fear with the current system is that the top tier is so far removed from the natural person credit union that we have no idea what they are doing; or not doing. As a small credit union, we rely on our corporates to manage risks that we are not qualified to. If the bottom tier of corporates is using US Central in the same manner, perhaps there is too much risk concentrated in one place.

Corporate Field of Membership – We would ask that NCUA seriously consider the possibility that the move away from limited fields of membership for Corporates has contributed to the current crisis. Many years ago, our one corporate was directing its efforts to serving ours and the other credit unions in Iowa. Today, we see corporates across the country grabbing for members in an effort to become the biggest and most powerful corporate. Too many corporates have shifted their focus from serving their membership to growing their balance sheet. Along with that need for growth, comes a need to make more profit until they are investing in risky assets that have no place in the credit union movement. Just as my credit union truly believes that we are people helping people, corporates should consider themselves credit unions helping credit unions. Competition needs to be limited in a cooperative environment.

Someone recently suggested that there need only be five or six corporate credit unions. We would strongly disagree with that idea. Further, we fear that the untamed competition currently being allowed in the corporate credit union system will likely result in exactly that. If two of five corporates had failed instead of two out of 28, we would be in a much worse position today.

2. Corporate Capital Requirements

The Iowa Corporate Central Credit Union is very well capitalized and serves us well. As a small natural person credit union, we did not realize that other corporate credit unions operated with less than half the required capital of a natural person credit union. We, therefore, did not take note of the risk those corporates, with whom we had no direct relationship, posed to us. It sickens us to think that our staff of six employees worked for nine months last year to bail out those corporates. We strongly support efforts to bring all corporates to a capital level of at least 7%. Each corporate needs to have a reasonable plan, (five years?), to grow their capital to that level. Ultimately, the goal of corporates should be to have the majority of that capital derived from retained earnings rather than more costly and volatile sources.

3. Corporate Governance Issues

It is essential that corporate directors be qualified and trained. The idea that a credit union manager could effectively govern a corporate credit union simply because he or she has managed to hang on to his own job for ten years is foolish. There must be minimum education and training requirements for anyone to serve on the board of a corporate credit union. It might be beneficial to reasonably compensate corporate credit union directors to help recruit better-qualified candidates. However, we are concerned with the idea of using outside directors and we see very little added value in such a move. Perhaps a more beneficial change would be to increase the use of third party experts to analyze risk exposure in all areas of corporate balance sheets. And, just as I educate my own board members on how to read and understand our financial statements, corporates need to provide significant education to their board members to make sure they understand the balance sheet for which they are responsible. More education should also be provided to all credit union directors and managers to make sure they are equipped with the tools to monitor their corporates.

4. Corporate Ratings

Ratings agencies are notorious for being off the mark and behind the game when organizations start to falter. However, it is important to smaller, less financially astute investors, such as small credit union managers and directors, to be able to use a general rating of any company they invest in; corporate credit unions included. If we are going to rely to any degree on ratings, those agencies need to be held to a higher standard and need to be responsible to the taxpayers who pick up the pieces when they fail. We can no longer even begin to trust a rating agency until they have been held to the same quality standards that NCUA was established to help hold credit unions to. NCUA needs to work with other government agencies and the current administration to make sure that those agencies rating our corporate credit unions are up to the task. Then, and only then, corporate credit unions need to be required to secure ratings from at least two *certified* agencies. Further, a corporate's balance sheet needs to be rated, not just as a whole, but also on each part; interest rate risk, liquidity risk, etc. Those expanded ratings need to be reported to all natural person credit union members.

5. **Payment System Risk**

Though we addressed payment systems earlier, we address the matter a second time as it relates to an area of risk within the corporate system. As a natural person credit union, we not only rely, but also depend on corporates to provide a flawless payment system. With a capital ratio of 11.90%, (12.8% before we bailed out the corporates), we can survive a significant financial crisis. However, if there were a major failure of credit union payment systems, it would be only a matter of days before any credit union would be out of business regardless of size or reserves. We hope that, as NCUA is addressing liquidity and investment problems in corporates, you are also taking measures necessary to make certain that we do not ever encounter a payment systems crisis on even a small scale.

We are not entirely comfortable with NCUA running two corporate credit unions, even for a short period of time. However, we recognize the need to stop corporate losses and preserve their payment systems to avoid a complete breakdown of confidence in natural person credit unions. We are not thrilled that corporates have been allowed to operate with very little capital reserves while we take the added risk of shoring them up should they fail. As a natural person credit union, we are the taxpayers in this system. We demand a better managed and better regulated corporate system. However, as a consumer of corporate credit union products and services we need our corporate credit unions to continue managing risks for which we are not equipped.

We feel NCUA should invest as much effort into improving their watchdog functions through better analysis and monitoring of corporates as they are investing in changing regulations for corporates. As much as the corporates are responsible to us for their own failures, NCUA is responsible to us for their failure to recognize corporate problems and address them proactively.

We thank you, sincerely, for investing the time and effort to read and consider the input from this tiny little credit union in Iowa. We trust, as we must, that you will work to solve the entire problem, not just those parts related to corporate credit union structure and authority.

Most Sincerely,

Tim L. Clark, Manager
tclark@aegiscu.com