FINGER LAKES FEDERAL CREDIT UNION RESPONSE TO THE NCUA ADVANCE NOTICE OF PROPOSED RULEMAKING

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The biggest determinant in defining the need and usefulness of corporate credit unions is the size of the NPCU. At 12/31/08 there were 1,197 under $2million; 2,077 from $2 to $10 million; 2,494 from $10 to $50 million; 755 from $50 to $100 million; 954 from $100 to $500 million; and 329 over $500 million. The 329 largest NPCUs represent 4 % of the number of credit unions and over 59 % of the assets. We would suggest that the need for corporates increases dramatically as one moves down the size scale. However the usefulness of corporates is independent of size and more often a function of the NPCUs management style and effectiveness of the corporates' capabilities and marketing achievement.

The 5,768 (74%) credit unions under $50 million deserve to have access to service providers that are benevolent, loyal, and understand the philosophy and needs of these institutions. While some are more dynamic than others most have benefited significantly from working with a strong corporate. While not a perfect cut-off many between $50 and $500 million have also benefitted from working with a strong corporate enjoying many of the same benefits as the smaller group. We would suggest that many of those over $500 million have also found the corporates useful and often necessary, in spite of the fact that they have created many relationships beyond the corporate system. Strong corporates provide great utility to the entire system. The current systemic weakness within the corporate system is now the root cause of our questioning the changes to be made. We would suggest that as the NCUA considers changes in regulation and other directives that they be designed to offer the support needed by the largest number of members within their responsibility.

Role of the Corporates:

Strong corporates are of immense value to natural person credit unions (NPCUs) at a variety of levels. They bring needed expertise and assistance to the payment systems process, liquidity management, investments, and other high level needs of credit unions. Re-energizing and maintaining strong corporates should be the goal of this process and done reasonably would benefit everyone. Because there are regional differences we believe that there is a need for possibly 5 to 7 corporates. Each would be assigned a specific geographic area with the possibility of limited competition, among the corporates, for certain of the services to be offered. We are advocating a similar mix of services to those currently available and would look to the NCUA to help us identify any that they believe are not appropriate. The more important issue is the management process within each corporate. They need to provide a management and operations structure that can appropriately support the diverse membership each will have. The giving-back process must find ways to actively support smaller units within their membership while efficiently providing traditional services to all. The increased scale, limiting multiple memberships, and increasing cooperation among all would go a long way to allowing managements to focus on service delivery.

We would not see the need for a U.S. Central but do see the need for some central process for coordinating system liquidity. This would be unnecessary if corporates do not cross-guarantee each other's debt and do not have equity positions in each other or in a central unit. Such cooperation seems difficult in this environment but can have systemic value when the system is healthy again.

Corporate Capital:

The real challenge in this process is to create a membership model that is workable and fair to all. We **do not favor required** membership, but expect most if not all credit unions to participate. While corporate credit unions are more complex than Federal Home Loan Banks, an equity investment requirement structured along their model has merit. Requiring ownership that matches the level of business participation for each credit union will cause a greater level of oversight by those who have the most to gain when a corporate is operated responsibly. The idea of investing in your service provider is consistent with the credit union philosophy. Again one must accept that we can only buy into this when we have moved past the current difficulties.

Permissible Investments:

The knee-jerk reaction to our current dilemma is to put great constraints on permissible investments now. While we also believe that this is needed now, only after there has been a full evaluation of the portfolios and the deficiencies can we create guidelines for future activities. This is another reason why the PIMCO report is so important to the process. The ramp-up and melt-down of the mortgage-backed securities business in this cycle may be a once in a lifetime event, so one would need to be conversant in the resulting marketplace before designing new regulations.

Credit Risk Management:

Portfolio management is largely a scientific process that measures cash flows from a pool of funds over time and lets you measure the return achieved in various periods. The more knowns in the process the greater the predictability of the return. When combined with sound liability management, a spread is created and results in a net interest income stream being created. It has not been determined to our satisfaction as of yet as to where this broke down and the restrictions and/or tools needed to improve the process. Again another potential output from the PIMCO report. The use of credit enhancements, subordinations, insurance, etc. should all come from this report; determine their effectiveness and be useful in any restructure of the process.

Asset Liability Management:

Anyone who doesn't believe that the PIMCO report is key to determining the deficiencies in this process has never been actively involved in ALM. The specifics of the securities to include floating nature of some bonds, spreads over indexes used, expected average lives, projected cash flows, and how all that matched with liabilities would go a long way in determining the effectiveness of what was done. Much concern has been raised by the mark-to-market requirements. They could be validated by the report and shed greater light on the expected recovery for the securities portfolios.

Corporate Governance:

We believe that because there is a need for scale in the size of corporate credit unions, that once healthy, governance becomes the key issue. The multi-billion dollar organizations will require boards that are diverse and recruited for a broad range of skills that are needed to provide oversight to management. Only credit unions with a significant investment in their corporate should be eligible to have managers elected as directors. In addition to the regular board there should be an advisory committee from credit unions that have less than $50 million in assets. Their responsibilities would include insuring the quality of products and services available to them.

Because of the size and potential complexity, it is imperative that NCUA not only retain the OCCU, but expand its scope and staff it with highly skilled examiners, a number who are permanently on site at the corporate. They should meet with management and the board at least monthly.