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Norfolk Fire Federal Credit Union

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March 23, 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:

The Norfolk Fire Department Federal Credit Union represents approximately 3700 members. Our credit union was founded in 1940, with a firefighter and a suitcase, going from station to station, writing checks to firefighters in need of funds. While we have grown in the past 68 years, we remain a small, natural person credit union, focusing on the principle of "people helping people".

Norfolk Fire Department FCU recognizes the crucial need for corporate credit unions. We rely on the corporate system to allow us access to many services and products we may not otherwise be able to obtain. These include a liquidity line of credit, SimpliCD and other certificate investments, a clearing account for our daily settlement activity, as well as other services like Check 21 and ICAPs. **Norfolk Fire Department Federal Credit Union strongly supports a viable and vital corporate network.** While we acknowledge that regulatory and structural changes are necessary to insure the continuation and solvency of the corporate credit unions, we feel it is important that the American credit union system not be deprived of the crucial corporate component solely because of the recent losses recognized at U.S. Central and WestCorp.

We are pleased to have this opportunity provided by NCUA to offer the following comments on the proposed rulemaking.

<u>Unprecedented Economic Markets, Fair-Value Accounting, and National Rating Agencies</u>

We clearly recognize that the present circumstances demonstrate the need to examine the effectiveness of the current corporate credit union system and, where appropriate to improve this vital network, to make reasonable improvements to the corporate structure in view of the recent sustained losses. We are of the opinion that due to mitigating circumstances such as (1) the investment losses at U.S. Central and WestCorp; (2) the subsequent capital infusion to those corporates funded by NCUSIF; (3) the need to protect liquidity in the entire corporate system by insuring all corporate deposits; (4) the compensating insurance premium assessed by NCUSIF on all natural person credit unions; and (5) the negative economic values at several other corporate credit

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unions are each more a reflection of results from a disjointed marketplace squeezed by housing losses and tightened credit rather than the result of poor investment decisions by the corporate credit unions which have taken these impairments onto their balance sheets through their income statements.

Further, we are convinced that fair accounting simply cannot adequately be used to assess solvency during a period where the market places little or no value on assets that are otherwise performing and contributing positive cash flow (and even positive earnings otherwise) at the corporates. We encourage NCUA to ask for the appropriate agencies, including the Securities and Exchange Commission (SEC) through their oversight of Nationally Recognized Statistical Rating Organization (NRSRO), to conduct an in-depth evaluation of how assets are securitized, packaged, rated and sold. There are at present and have historically been far too many complex and poorly understood investments being sold through our capital markets.

Structure of the Corporate System

U.S.Central was originally established as the primary investment house for the nation's other corporate credit unions. While this two-tier corporate system has for the most part been efficient and worked extremely well for many years, U. S. Central's overall role within the corporate network has become less clear with many corporates now exercising expanded investment authorities. Inherent in a multi-tiered system is that each successive tier must be able to take on additional risk in order to provide value to the entire system. We therefore feel that at this point, **the two-tiered system of corporates may have become obsolete.**

The question that follows is *what is to be done with U. S. Central Federal Credit Union?* **Our recommendation is that the settlement and payment functions of U. S. Central be spun off into a credit union service organization (CUSO).** While the capitalization of this CUSO would have to be fleshed out by the corporate and natural person credit union marketplace, the extablishment of such a CUSO, in our view, ensures that the important role of a credit union industry based settlement provider will be protected and preserved.

U. S. Central, as an *investment* corporate, should be allowed to continue under the same regulations as other corporates so long as it can be adequately capitalized. In other words, U. S. Central can become another corporate credit union with its success based upon its competitive position and effectiveness in serving its members. It is possible that smaller corporates, many of whom have traditionally been viewed as "pass-thru" in their relationships with U. S. Central may elect to consider merger if this would serve to make them more competitive.

Obviously, retail credit unions will be able to join U. S. Central under this proposal. Therefore, for U. S. Central and other corporates as well, national fields of membership are appropriate in that they promote competition and limit systemic risk. While the marketplace should ultimately determine the number of corporates, we believe that through the regulatory process and appropriate supervisory actions, consideration must be given to limiting the size of any one institution that might serve to pose unilateral risk to the overall corporate and/or natural person credit union system.

Liquidity and Investment Authority

The corporate network can only be a significant and sufficient liquidity provider to our nation's credit unions to the extent that the individual corporates can attract deposits from their investors and owners, the natural person credit unions. **Without question corporates should have the ability to invest in instruments beyond the authority granted to a retail credit union.** Without such authority, the ability to meet the needs of their member credit unions will be compromised.

Likewise, the inability to have expanded investment authority will adversely impact the ability of corporates to build capital.

We feel that a risk-based capital structure is needed and is clearly appropriate for corporates. In fact, we are convinced that a risk-based capital system is likewise appropriate for all credit unions. Generally, we are supportive of NCUA adopting standards consistent with Basel I and Basel II Accords, provided they are structured in a manner that recognizes the unique structure of credit unions as not-for-profit financial cooperatives with limited access to capital other than through retained earnings.

In any risk-based capital structure for corporates, credit risk, operational risk, and market risk should all be considered and quantified appropriately based upon the individual corporate. In addition, it is our view that for a corporate risk-based system to work properly, NCUA would need to establish appropriate risk weights for: (1) government backed investments, (2) other national depositories, (3) residential mortgage obligations, (4) business obligations, and (5) asset-backed securities from sub-prime borrowers.

In addition to having capital requirements based upon their risk factors, **we believe all corporates with expanded investment authority should have to re-qualify for that authority periodically.**

Capital Standards and Sources

It is our view that corporate credit union capital should consist primarily of reserves and undivided earnings (RUDE) as well as perpetual paid-in capital (PIC). PIC should only be available for investment from a member credit union. Given that some corporates are in need of adding necessary capital, there should be no disparate treatment of RUDE and PIC. Both should be counted, and we suggest a **minimum capital requirement of 4% and risk-based (Basel) of 8%.**

Corporate Governance

Credit unions, including corporates, are member-owned cooperatives established for the benefit of their members and controlled by those member-owners. With a few exceptions, board members have historically been unpaid volunteers. **In our opinion, this distinction should be preserved.** There is little, if any, evidence to support a conclusion that outside directors could have served to provide any higher degree of expertise or knowledge that would have helped to alleviate the current economic stress in the corporate system. Universally, the financial markets are in distress, including institutions with outside directors. Banks, brokerages, and insurance companies have all been among the financial institutions adversely impacted, facing losses and requiring government assistance to survive. Again, many of these who failed had outside directors.

Boards of Directors do, however, need to be representative of the membership of the corporates. Competent and the best performing board members are always a result of ongoing education and a commitment to the industry they serve. While we do not advocate individual director term limits to be mandated by NCUA, fresh ideas and enhanced perspectives should be considered of value by each corporate wit an evaluation within its own Board of ways to insure some turnover process internally for board seats.

We believe corporate credit unions have done an appropriate job of demonstrating transparency in the disclosure of their known financial conditions during the time leading up to their documented impairments. **Therefore, we do not believe any additional public disclosure requirements are necessary.**

It is our strong belief that a healthy corporate network is absolutely necessary to provide settlement, liquidity, and investment services to natural person credit unions of all asset sizes. Of particular benefit is the role a healthy corporate credit union system provides to smaller and medium sized credit unions, many of whom cannot adequately replace corporate provided services at an affordable price in the open market.

The Norfolk Fire Department Federal Credit Union supports appropriate and well-considered reform of the corporate credit union system. We understand that some action is necessary by both NCUA and the credit union community to restore confidence in the system. It is because we want to see confidence restored in this vital system that we wanted to express our thoughts on this proposed rulemaking.

Thank you for the opportunity to present our views on the future of the corporate system through this official comment letter.

Please do not hesitate to contact me if you need additional information or clarification of any of the positions of the Norfolk Fire Department Federal Credit Union reflected in this letter.

Sincerely,

Kathy J. Galland
President / CEO
Norfolk Fire Dept. FCU

Cc: Chairman Michael Fryzel
Vice Chairman Rodney Hood
Board Member Gigi Hyland