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MARK G. HOLBROOK
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ECCU

April 3, 2009

The Honorable Michael E. Fryzel
Board Chairman
National Credit Union Administration
1775 Duke St.
Alexandria, VA 22314-3428

RE: Comments on Advanced Notice of Proposed Rulemaking Part 704

Dear Mr. Fryzel:

On behalf of our Board of Directors, we wish to thank the NCUA board for this opportunity to comment on the ANPR regarding the corporate credit union system. We write with full recognition that any forthcoming regulation will have major implications for all credit unions. The corporate system plays a vital role in the health and sustainability of the thousands of credit unions across our country, and its future will in large measure impact the future of our entire movement.

Since the seizure of U.S. Central and WesCorp we have revised this letter somewhat. We were initially supportive of the Agency's steps to stabilize the corporate system through the infusion of capital into U.S. Central. At that point the board made a wise and necessary, albeit painful, decision to step up without delay. I personally communicated this support in my recent visit to board members Hyland and Hood, and appreciated the board members willingness to engage discussion. However, the Agency's untimely action to conserve the two largest corporate credit unions brings the Agency's decision making process into question and places many credit unions in further jeopardy. The Agency's adamant refusal to release underlying analytics supporting its decisions is itself unsupportable. We do not understand nor accept the Agency's claim of confidentiality in this matter. **This is a time for greater transparency, not obfuscation**. While we cannot speak for other credit unions or stakeholders, the Agency must be aware that its actions are widely perceived to be untimely and ill advised. You have heard them from many sources in the last several days, including an email from this credit union. We will not reiterate all the issues. We do ask that you listen carefully and take appropriate and swift action to demonstrate why credit unions should again place confidence in the Agency.

The Agency has asked for comments as to how it can promulgate a new corporate regulatory framework that will enable a healthier, safer, profitable corporate system that meets the liquidity, payment system and investment needs of the nearly 8,000 remaining credit unions in the country. The Agency first needs to rebuild trust and restore confidence that it is seeking to act in credit unions' best interest. The Agency should immediately take the following actions:

- Confirm the Agency's intent and commitment to hold the corporates' securities to maturity. They must not be sold before the market recovers and real losses can be accurately assessed.
- Assure members of the two seized corporates that any recovered capital will be returned to them over the next several years as their portfolio of securities runs off and is eventually sold in a normal market. These are credit union members' funds, not the Agency's and should not become fodder for windfall hedge fund profits.
- Release the underlying analytical data supporting the Agency's actions. Until this is done the Agency ensures a hostile and adversary relationship with the industry it seeks to regulate. No public good will come from the Agency's lack of transparency.
- Return control of the WesCorp and U.S. Central to its members at the earliest possible time.

The dislocation of the financial markets has surfaced opportunities to strengthen the corporate system. We offer the following suggestions and observations in response to the Agency request for comment.

Corporate Credit Unions Provide Essential Services

Corporate credit unions are in large measure the "glue' that holds the credit union system together, particularly for smaller and less sophisticated credit unions. The three legs of the corporate system service to its member credit unions must be preserved: Payment systems (including settlement), safe harbor investments and liquidity.

- Corporate credit unions should consolidate payment system back-office operations to gain much needed operational efficiencies.
- Credit unions need a safe, reliable means to invest funds within the credit union system for the benefit of all credit unions.
- The corporate system is an efficient aggregator of surplus credit union funds and provides an essential first-line liquidity source for all credit unions and their CUSOs. Even some larger credit unions would suffer a marked decrease in liquidity management efficiency absent a healthy corporate system.

- Many smaller credit unions would not be able to set up efficient correspondent bank settlement relationships or affordable credit lines. Without a corporate system functioning much as it has, the rate of small credit union failures and mergers would undoubtedly accelerate.
- The two-tiered system should be eliminated. A smaller number of more efficient corporate credit unions should allocate excess liquidity among themselves. As experience has now demonstrated, a second tier, central credit union needlessly compounds system risk and is too far removed from natural person credit unions for them to influence or assess risk.

Payment System

Payment system services offer a vital service, especially to smaller credit unions. There are clearly opportunities to capture much greater efficiencies by combining back office services by way of cooperative agreements or creation of one or more CUSOs. There is no need for 28 corporate credit unions and consolidation of these would offer significant opportunities for lower structural and operating costs. We urge the Agency to encourage such consolidation without explicit regulatory mandate. Requirements for higher levels of risk based capital, de facto limits on investment options and the resulting narrower spreads will force this consolidation in an orderly and timely manner. We do not think that isolating payment services offers a sustainable or efficient business model. As noted above, settlement services and settlement lines of credit are essential services for smaller credit unions and should not be isolated from the corporates' liquidity function.

The ANPR asks whether a legal and operational firewall be established between payment system services and other services. We strongly recommend that all corporate credit unions be granted the same powers for investments, payment system services and lending, but with risk based capital requirements associated with each service. Let the corporates and their owner members decide which services they are willing to capitalize within the regulatory framework.

Liquidity and Liquidity Management

The Agency asks whether liquidity ought to be considered a core service of the corporate system. We answer with a resounding "yes." Alternatives to corporate credit unions are few and far more expensive for most credit unions. Corporate aggregation of credit union funds keeps those funds within the credit union system, enhancing the strength of all participating credit unions. For instance, only the largest credit unions are able to access the Federal Reserve Bank discount window because of the complexity of application and management of the process. Major banks have little interest in serving most credit unions at a price the credit unions can afford.

The ANPR suggests that the corporate liquidity function should be for short term liquidity needs. We suggest that there is an ongoing appropriate need for longer term structured loans for some number of credit unions with greater member loan demand. Our credit union has safely utilized structured loans with our corporate for many years, providing an opportunity to keep credit union system funds within the system, while enabling our credit union to meet member loan demand. As the current economic environment has demonstrated, corporate credit unions have suffered virtually no losses from structured loans to natural person credit unions. This clearly is a service to credit unions that has proven far safer than other investment options.

Field of Membership Issues

We believe some level of competition among corporates and some number of choices for natural person credit unions will foster a healthier corporate system in the long run. We do not need 28 corporates for a number of reasons. Competition among many credit unions within our finite credit union system is not sustainable or healthy. On the other hand, some smaller number of larger corporates can provide important choices for natural person credit unions while maintaining a necessary competitive discipline. We strongly discourage a return to defined or limited FOMs. Geographic limits are artificial in nature and do not necessarily result in a stronger or safer system. Instead, we urge the Agency to keep FOMs open and require that all member credit unions maintain commensurate risk-based capital investments in any corporate whose services they utilize.

Expanded Investment Authority / Permissible Investments

The Agency seeks comments as to whether existing expanded investment authority should be maintained or modified. We strongly recommend that the current authorities be maintained with additional protections.

- Capital requirements should be commensurate with the risks associated with a particular investment class.
- Risks associated with each investment must be independently evaluated using sampling methods and analysis of actual underlying collateral, whether residential home loans, credit cards or autos. History has painfully demonstrated the folly of reliance on rating agencies, whose weakness are now well documented.
- Concentration of investment in any investment class must be limited. The current crisis resulted largely from poorly understood and analyzed investment risks and from a concentration of investments in a single class or related classes of securities, primarily MBS and ABS.

Further restrictions on investment authority will serve to weaken the economic model of a system that already operates on very thin margins.

The Agency asks whether corporate credit union authority to purchase and hold investments not permissible to natural person credit unions should be constrained or restricted. We recommend that current authority be maintained with additional limits as outlined above, provided a standard of competence and sophistication of investment professionals can be established and monitored. Few natural person credit unions would be able to engage in such esoteric investments. Consolidation of investments within a fewer number of corporates offers greater efficiency and higher yields, and can be monitored more effectively by the regulator. Some currently permissible investments should not be allowed, such as CDOs, and Alt-A (sub-prime) mortgage backed securities as underlying risk cannot be reasonably assessed or probable capital requirements supported.

Credit Risk Management

As stated, reliance on NRSRO ratings should be curtailed until such time as confidence in these ratings can be established through regulatory oversight and independent analysis. The entire NRSRO system is fundamentally flawed as recent events have demonstrated. Until this system is restructured, we concur that the lowest rating from multiple rating agencies should be used, and additional stress modeling be required. In addition, independent analysis of a sampling of underlying collateral should be required, as well as assessment of other factors such as geographic diversity. We encourage the Agency to adopt appropriate standards for independent contractors, but do not have suggestions as to what these should be.

Corporate Capital

Corporate credit unions should have higher capital levels, with a target of 6% tier 1 capital over some reasonable time. A risk based capital system should be adopted, and permanent capital investment should be required of all participating member credit unions commensurate with the risks associated with services used.

Corporate Governance

Governance of corporate credit unions has generally been of high quality. We question whether any different board composition could have mitigated the losses resulting from the economic crisis. However, some threshold requirement for board member qualifications seems appropriate. Any proposed qualification should have a demonstrated correlation to successful board performance. Previous experience on successful, complex boards should be the first (and perhaps the only) requirement. While some members with proven competence in finance and investment should be present on every corporate board, a diversity of experience and disciplines is desirable. We should remember that many companies governed by boards comprised mostly of sophisticated financial experts have nonetheless failed.

Ongoing training of every board member should be required. A limited number (minority) of outside, non-member directors should be permitted at the discretion of each corporate credit union based on the needs and complexity of the corporate.

We thank the Agency for this opportunity to comment. We look forward to seeing a proposed new or revised corporate regulation that will enable the corporate system to safely thrive as it serves vital needs of our credit union system.

Sincerely,

Mark G. Holbrook
President/CEO
Evangelical Christian Credit Union

cc: California Credit Union League
Credit Union National Association