April 3, 2009

Nation Credit Union Administration
Mary Rupp, Secretary of the Board
1775 Duke Street
Alexandria, VA 22314-3428

Dear Ms Rupp:

City Credit Union is a $21 million credit union that has been serving the Independence, MO area for 49 years. We appreciate the opportunity to comment on the Advance Notice of Proposed Rulemaking (ANPR) on National Credit Union Administration (NCUA) regulation, Part 704 regarding Corporate Credit Unions. My comments will be limited to my knowledge and relationship with Missouri Corporate Credit Union (MCCU) and as it pertains to the Corporate Network.

1. The Role of Corporates in the Credit Union System

MCCU provides us an Economy of Scale. We can obtain all the services provided by MCCU elsewhere but we do not have a volume in any of these services to get them economically. The Corporate concept allows small and large credit unions to take advantage of pooled resources. These pooled resources allow MCCU the resources and volume to obtain pricing that saves all credit unions money.

The other, and more important role that MCCU provides in the expertise that small and some large credit unions can not afford. In regards to the payment systems, our staff is experienced and knowledgeable but would have to be far more sophisticated in order to handle the back office routines required of share drafts, ACH transactions, debit cards, wires and Western Union transactions. When I took over at City Credit Union, a local bank was used for a lot of our draft and cash services. Seventeen years ago, this bank was fairly in line with MCCU fees, but as MCCU grew that gap became smaller. When we started to see increasing fees, and decreasing flexibility we moved exclusively to MCCU and our fees were cut by a thirds and our flexibility in operations increased. This allowed our credit union to cut expenses and increase productivity, which intern, paid off in more services for our members, a higher bottom line and increased capital position.
MCCU's non-committed line-of-credit provides the credit unions with a low cost alternative to

the committed lines that would be required outside the corporate network. They also provide a much larger available balance from our daily deposits increasing our yields and liquidity. Both these services have economically met our liquidity needs over the years.

One of the questions you asked is whether liquidity should be a core service and whether NCUA should limit other services. Yes, liquidity is a core service and NCUA should keep a tighter eye on a corporate's ability to provide this service. Establishing tighter guidelines on the non-matched investments of corporates should insure that they are meeting the liquidity demands necessary for their member credit unions. These guidelines, however, should not penalize a corporate like MCCU. MCCU is simply a pass-through to US Central, and therefore has not created the burden on the insurance fund.

Corporate Field of Membership is like a Natural Person Credit Union Field of Membership. It is not the Field of Membership (FOM) that is at issue, but how that FOM is managed. There are Corporates that have safely and soundly managed their FOM, while others have taken risks to try and compete where there must have been either shortfalls in service or boards setting expectations too high. I do not feel that FOM rules should be changed.

As I understand the rule for Expanded Investment Authority, it should be regularly certified, whether annually or something else that is appropriate. Capital, particularly undivided earnings, should be set at levels to mitigate the increased risk. I make the assumption that all corporates must meet some minimum cash flow, liquidity, and risk-based reserve requirements. A review of these requirements and some adjustments for the current economy should insure that corporates are able to fulfill their core role to the natural person credit unions.

Finally, I would like to address the Corporate Network Structure. I can not pretend to know about all the internal structures and workings of the Corporate Network.

Corporate Network is needed by the small credit unions, and supported by the large ones. We can all send our checks through the Fed, order cash, get into Fedline for ACH, and do the research and due diligence needed to purchase our own investments . The question is, will we?

Speaking as a President of a $21 million credit union, I am the CEO, CFO, CIO, the janitor, the collector, a part time teller, a part time loan officer, Compliance Officer and secretary. There may not be enough left to also take on investment specialist, payment system expert and knowledgeable enough to handle the many rules and regulations related to ACH processing. Our Corporate provides us with the expertise that allows us to wear the many hats that we are required to wear.

Without retail corporates, you will lose a lot of good qualified CEO's and their credit unions. This is not egotistical, this is reality. Our Boards depend on us to provide them with expertise so that they can meet their responsibility to the membership. Our Corporate provides CEO's with the expertise we needed to do our jobs and fulfill our responsibilities to our volunteers and the members. Take the retail Corporate out of the equation and the system will crumble for small credit unions. There will be credit unions that finally throw in the towel, whether it is immediate or when the CEO quits or retires.

Please don't jump into changing the corporate structure. Sure we need to look at capital issues, investment concentration limits, liquidity issues, field of membership, investment authority, permissible investments, governance and more. But I would just ask that we be patient. There will be losses, but we will survive. Let things ride, take your time, and change for the right reasons not for the sake of change.

It is assumed, at least at the natural person level, that US Central (wholesale corporate) has the greatest level of expertise and is able to handle the highest levels of risk. The retail corporates have expertise but should be more focused on service and liquidity by having a somewhat lower tolerance for risk. Altering the structure by either eliminating the wholesale level or retail level would put a strain on the system during a time when getting back to normal is imperative.

The system works for credit unions because we do business differently then other aspects of the financial system. Before this current financial crisis the credit union network was stronger and better capitalized then most in the industry. When the crisis finally filtered down to the credit union network, all levels of the network came together. Not asking for bail out, but focusing on the issues that needed addressed. Liquidity has been maintained at a great sacrifice for natural person credit unions. There are still issues, but the network system as a whole is continuing to move forward to deal with these issues. If anything, this crisis has shown how successful the credit union network is, and with some tweaking, it will come back as strong as ever.

2. Corporate Capital

Capital levels need to be in line with the risk that the individual corporate assumes. If the risk levels are maintained at the lowest level, then the current core capital requirements of 4% should be adequate. Those requirements should go up accordingly based on an increasing risk factors. I would think that standards of risk should be similar for all financial institutions. A reevaluation would be in order for all financial institutions.

As far as the time frame to acquire these newly developed standards, it should be similar to what you require of natural person credit unions that have dropped below PCA. A Capital Restoration Plan should be put in place that is both reasonable and obtainable but specific time frames would have to be based on an individual basis. With the history of asset variations in corporate assets, the current rolling average seems to work. At a minimum, a choice similar to what is offered to natural person credit unions would seem in order, using one of the three options to obtain the number that works best for the individual corporate.

Membership capital should be maintained and required in order to receive corporate services. This form of capital allows corporates the ability to raise and maintain capital. Membership shares should be allowed to Associate members as well, but restricted to not include voting rights. I believe this is necessary to maintain the cooperative nature of credit unions.

There should always be a focus on retained earnings in the corporate system as it is in natural person credit unions. Membership Capital should be the base for providing the core services of liquidity and payment systems. From this point, increased retained earnings and Paid in Capital

(PIC) should be maintained at levels that shoulder the risk for the services that the individual corporate chooses.

3. Permissible Investments

As a rule, most natural person credit unions have limited expertise in investments beyond CD's and maybe treasury instruments. MCCU provides our credit union with investment opportunities that are save, sound, and provide us with yields that allow us to be competitive.

As it has become evident, asset-backed securities have been part of the equation. This was not a credit union misjudgement, it was a global misjudgement. The corporate network must be allowed to make sound investment choices, which should include asset-back securities. Investment risk should be tied to reserves and risk management practices, but not limited if credit unions want to stay competitive.

4. Credit Risk Management

The financial world depended on the ratings industry. Assuming that there will be greater regulatory control of these agencies, it would still be prudent business to use them. A requirement to get more than one rating would be in order and using the lowest rating would be the safest and soundest approach. The ratings must meet the minimum rating requirements of Part 704. In addition, it would seem logical that corporates who deal with these type of investments would want to seek out firms such as PIMCO to give them independent reviews. As to whether this should be a regulation or a Board decision, I would think that individual Boards would want to cover themselves and that a regulation would not be a necessity.

5. Asset Liability Management

NCUA should require corporate credit unions to perform net interest income modeling and stress testing.

6. Corporate Governance

I believe that the focus of this current situation is far from being an issue of the Board structure. Corporate Boards are made up of credit union CEO's elected by their peers. CEO's of corporate credit unions make up the Board of US Central. This is an incredible pool of talent that knows the credit union system and to change this cooperative method would not have changed what happen financially. I would be apposed to compensation, term limits or minimum standards. I would also disagree that "financial experts" from outside the credit union system would have made any difference. Right now, we need the people who have made this credit union system as sound as it is, directing us through these troubled waters.

In closing, this financial crisis is unprecedented. Maybe it shouldn't have, but it took all areas of the financial marketplace by surprise. Credit unions have rallied behind a cause that some are having a hard time grasping. You have an incredible following, and it is up to NCUA to maintain safety and soundness. Credit Unions need the information about what happened and what is happening to continue supporting your decisions. The success of the CUSIP program, the increased deposits in corporates, and the reduction in borrowing proves that the troops may be grumbling, but support of the system continues. Do what you can to not lose that loyalty.

Respectfully submitted,

Steven Knudsen
City Credit Union

cc: Missouri Corporate Credit Union
City Credit Union Board of Directors