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To: _Regulatory Comments
Subject: Security One Federal Credit Union -- Comments on Advanced Notice of Proposed Rulemaking for Part 704

SECURITY ONE FEDERAL CREDIT UNION

REPONSE TO
ADVANCED NOTICE OF PROPOSED RULEMAKING
REQUEST FOR COMMENTS
CORPORATE CREDIT UNION SYSTEM
MARCH 2009

Security One Federal Credit Union is located in Arlington, Texas and is a member of Southwest Corporate Federal Credit Union. We use SCFCU for our overnight investment funds, for purchasing certificates of deposit not only from the corporate itself, but also utilize its Simply CD program for purchasing institutional CDs from other financial institutions. Additionally we have a line of credit, both a loan secured line of credit and an open end line of credit for borrowing when we are having short term liquidity periods. Additionally we utilize their payment systems for ach origination, receiving of ach, share drafts, clearing our debit/atm/credit card transactions, ordering cash/coin for use in the office, for ATM network access (Co-Op network), check 21 deposit capture, western union wire transfer and bank wire transfer. Southwest Corporate is our single source financial services institution. Security One FCU is a $49 million credit union. We are a small CU and cannot do these retail type of services without a corporate credit union to provide this source of services to us. They provide all our liquidity needs as well as all our payment systems needs. If SCFCU were not available to us to provide these services we would have a difficult time locating a single source institution to provide these services, at a price in which we could afford to offer retail banking services, competitively priced, to our members.

1. **The role of Corporate Credit Union in the Credit Union System.**

When Corporate Credit Union's were first established in the 1970's the role of the corporate system was to provide liquidity to the natural person credit union during a period of time when liquidity sources for credit unions was scarce. Additionally it provided a basic overnight investment account for placing excess funds on an overnight basis. The corporate credit unions provided no investment services, nor payment systems.

When corporate credit unions were established, their capital requirements and the development of the Members Capital Shares or Paid In Capital Share accounts were developed, and levels of capital established based on very basic needs of the corporate credit union system. As sophisticated investment services were developed and payment services added to the roles of corporate credit unions, their level of required capital was not changed to keep up with the inherent risk of the levels of business risk the corporate credit unions were taking on.

a. **<u>Payment System</u>**

I believe the nature of the payment system services of the corporate credit union need to be separate from the investment services because of the different natures and levels of risk derived from each line of business. This could be achieved by forming a CUSO type of service at the corporate, that handles payment systems and its processing from the operational side of the corporate credit union. This separate entity would be a stand alone model that had to generate its own income, establish its own risk levels and reserve adequately for the risk associated with the payment system business, while building its own capital/reserves that would be set proportionally to the amount of payments cleared annually.

b. Liquidity and liquidity management.

Liquidity needs/sources of corporate credit unions needs to be further explored. Currently they are restricted from borrowing directly from the CLF. The restrictions of access to CLF by corporate credit unions needs to be lifted, and additionally the borrowing limits of the CLF expanded as well. CLF lending needs to be increased to $50 billion.

c. Field of Membership Issues.

Corporate credit unions were originally spun off from the Leagues in the states in which the corporate credit unions are located. Access to the corporate credit unions was originally tied to membership in the state leagues where the credit union was located, thus necessitating the almost 50 corporate credit unions that originally made up the corporate network system. Once corporate credit unions were no longer tied to strictly the states (in Southwest Corporate FCU's case a four state region) they were located, national charters and overlaps in corporate FOM's began increasing competition between the corporate credit unions.
I believe that one of the reasons there is stress on the corporate system is allowing multiple national charters. Additionally, as natural person credit unions were allowed to invest in more than one corporate, some corporate credit unions allowed accounts without requiring either Membership Capital, or PIC. This further deteriorates a corporate credit union's capital when it takes in deposits/accounts, and offers services without requiring the establishment of MCA or PIC. NCUA needs to abolish the national charters and establish regional charters, reducing the corporate system from 28 corporate credit unions to no more than 5. Natural person credit unions can then either join the corporate CU in their region, or if they want more than one corporate account they should be required to invest in MCA and PIC in each corporate. This would create a "pay to play" type of arrangement. To utilize a corporate credit union's services but not contribute to the capital should limit a credit union's ability to have an account at the corporate. Additionally, with the sophistication of the corporate system versus what it was in the mid 1970's when corporate credit unions were began I see no need to have a three tiered system, natural person credit union, corporate, and US Central. I believe the role of US Central has been diminished by the evolution of and expanded services offered by a corporate credit union. Sophistication and complexity of the current corporate have pitted US Central in direct competition with the 28 corporate credit unions. Corporate Credit Unions now have more resources available for meeting their borrowing/liquidity needs as US Central once provided, as *their* single source institution.

d. Expanded Investment Authority.

I believe that a need for expanded investment authority still exists, however under the present structure it is set up for failure. There seems to be no concentration limits for expanded investment authority. I would recommend that a concentration limit be put on these types of investments, to no more than 300% of total capital.

e. Structure; two-tiered system.

I believe that the need for the two tiered system of corporate credit unions no longer exits. I believe that the retail network of corporate credit unions has evolved to be able to support itself, through other means to borrow, invest without the need for the wholesale credit union. This current ordeal of the insolvency of US Central, and now Wescorp, is indicative of gross negligence in the transfer of risk in which these two corporate credit unions chose to engage, and their risk/losses are transferred to the natural person CU. It is indicative of so much competition between corporate credit unions trying to offer services, in a market in which they were oversaturated.

2. Corporate Capital

a. **<u>Core Capital.</u>**

Corporate credit unions should be required to have a percentage of their core capital come from income generated through their income statement. I believe that their core capital should be a percentage based on the type of expanded investment authority they have been granted, and are participating in. If they are engaging in the riskier investments that are available through their expanded investment authority they should be required to have higher core capital ratios before any type of membership share or PIC account is calculated into their capital base.

I believe that a minimum of core capital of 5% should be required. I believe that they should have a 7 year period, given today's environment to get their capital up to that 5% level. Membership Capital and PIC should be factored on top of this minimum core capital requirement.

b. **<u>Membership Capital</u>.**

Membership capital share should continue to be adjusted annually based on the natural person credit union's assets as of December 31 of each year. Whereas there are currently (at SCFCU) two levels, 1% for a full participant or .25% I believe it should be one level of participation. I believe to create more stability for the corporate being able to control the volatility in movement in and out of membership shares, that the current requirement of three years to withdraw should be extended to a five year notification for withdrawal.

c. **<u>Risk-based capital and contributed capital requirements</u>.**

Natural person credit unions should be required to maintain a contributed capital account (membership shares at SCFCU) before being able to utilize services from the corporate.

3. Permissible Investments.

Corporate credit unions should be prohibited from investing in subprime asset backed securities.

4. Credit Risk Management.

5. Asset Liability Management.

6. Corporate Governance.

I believe that corporate credit union's need to elect their board of directors from within its Field of Membership.

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Our vision is to be the community's preferred provider of financial solutions.